He's back: Garamendi runs for commissioner/ 3

U.S. lawmakers hear views on mold issue/ 3

www.businessinsurance.com

Business Insurance®

July 22, 2002
Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.
$30

USI founder teams up with former Aon exec

Mizel to build a new brokerage

By SALLY ROBERTS

Longtime brokerage executive Bernard H. Mizel, who retired from the helm of one of the world's largest brokers just a few months ago, is returning with plans to build a new broker for the middle-market.

Mr. Mizel, who successfully created and built such brokers as American Business Insurance Inc. and USI Insurance Services Corp., now is in the process of finding investors to back a new company, Entegra Insurance Services Inc. Entegra will focus on providing employee benefits and property/casualty insurance services to middle-market clients and plans to grow through acquisitions.

Mr. Mizel

Mr. Mizel, who was chairman and chief executive officer of USI when he retired in January (*BI*, Jan. 28), would not comment about his specific plans for the new brokerage until the financing is secured.

What is known is that Mr. Mizel, who will serve as chairman and CEO of Entegra, has tapped veteran insurance executive Richard A. Riley to help in his effort. Mr. Riley, who will serve as president and chief operating officer, was formerly vice chairman of Chicago-based Aon Group Inc. Mr. Riley was chairman of Aon Risk Services Cos. Inc.-Americas, Aon's retail brokerage unit, until March 2000, when Kenneth J. LeStrange assumed the role. Mr. LeStrange has since become chairman, president and CEO of recent Bermuda startup Endurance Specialty Insurance Ltd.

At least one brokerage merger and acquisition expert says that Mr. Mizel's timing with Entegra could

See MIZEL/page 56

Bill seeks 401(k) blackout warnings

By JERRY GEISEL

WASHINGTON—Under legislation passed by the Senate last week, employers could be held liable if they do not give employees 30 days advance notice of brief 401(k) blackouts in which transactions cannot be conducted.

The provision, tucked into an accounting and reform measure, is similar to those included in 401(k) reform legislation earlier passed by the House and two Senate committees. Those proposals would also require employers to give participants in 401(k) and other defined contribution plans 30 days advance notice of so-called blackout or lockdown periods, in which they cannot trade company stock held in their accounts.

Unlike those other proposals, which do not mandate advance notice for brief blackouts—which generally are those lasting up to three days—the Senate accounting and financial reporting bill, S. 2673, lacks a de minimis ex-

See PENSIONS/page 56

States draw on funds to aid budget crises

Insurance resources targeted by more states

By MEG FLETCHER

TRENTON, N.J.—A recent $40 million raid by the New Jersey Legislature on the state's surplus lines guaranty fund is but one of several examples of state legislatures dipping into insurance-related funds to cover general revenue shortfalls.

In response to what the National Governors Assn. calls "this unparalleled crisis," many states are either directly or indirectly raiding, borrowing or otherwise diminishing financial resources that had been previously allocated for insurance-related purposes.

Depending upon what approach states have pursued to boost revenues, buyers and insurers may face new assessments or higher costs to replace the missing funds. Buyers and insures also may face weaker protections and regulatory oversight than states previously considered prudent.

State officials, though, now place a higher priority on balancing their budgets—which is a constitutional requirement in nearly all states—than on ensuring adequate funds are available in the future to cover insurance-related costs, ranging from claims to regulatory expenses.

The NGA and the National Assn. of State Budget Officers determined in May that more than 40 states are facing an aggregate budget shortfall of $40 billion to $50 billion, according to an NGA statement.

"Recent state tax information shows an ominous 8% decline in revenues for the first quarter of 2002, which is the third and worst quarterly decline in a row," according to a July 16 letter

from NGA leaders to congressional sponsors of a pending relief bill. "All three major revenue sources—sales, personal income and corporate profits—were negative. This is the first time since the Second World War that state revenue growth for a year was negative," the governors wrote.

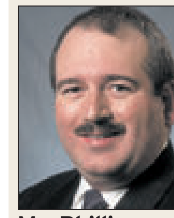
The federal relief bill, S.B. 2570, is expected to provide about $9 billion in assistance to the states by temporarily increasing the federal government's share of the Medicaid program expenses,

See SHORTFALLS/page 54

Late News

RIMS endorses Senate terrorism insurance bill

The Risk & Insurance Management Society Inc. favors the Senate-backed approach to providing government-supported terrorism insurance relief over the measure passed by the House of Representatives, RIMS has told legislators reconciling the two bills. "RIMS prefers the Senate program structure and retention level approach, whereby the government would share, with the insurance industry, the costs of a catastrophic terrorist attack," Michael D. Phillipus, vp-communications and external affairs of New York-based RIMS, wrote in a letter to Rep. Michael G. Oxley, R-Ohio, chairman of the House Financial Services Committee. The House measure, which advocates a loan program for insurers in the event of a terrorist attack, would result in higher costs for policyholders, due to the interest loading inherent in the program, Mr. Phillipus wrote.


Mr. Phillipus

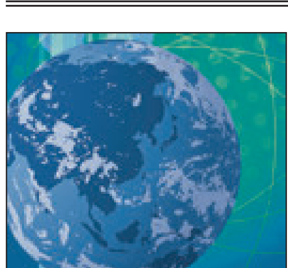
Cash balance proposal draws lobby group fire

A benefits lobbying group is urging House lawmakers to reject a proposal that would effectively require the Internal Revenue Service to change the way employers calculate benefits that cash balance plans pay to employees terminating employment. The amendment, which was filed by Rep. Bernard Sanders, I-Vt., and could be added to a Treasury Department appropriations bill this week, would essentially put into law a methodology the IRS proposed, but never adopted, in calculating benefit values, the ERISA Industry Committee said. Under this so-called "whip-saw" methodology, the amount due to the employee could be substantially higher than the actual account balance.

XL boosting WTC reserves by $200 million

XL Capital Ltd. said it will boost reserves by $200 million for Sept.

See LATE NEWS/next page



Spotlight Report:
31ST ANNUAL AGENT & BROKER PROFILES/RANKINGS
Begins on page 10

International
SOARING COST OF INSURANCE HURTS SAS
Begins on page 51

BI 07-22-02 A 2 7/19/02 5:33 PM Page 1

Inside

Health captive formed for educational groups

A new captive is providing educational associations in the District of Columbia with an alternative source of health insurance for their employees. Page 4

When the rules change, change your address

For U.S. companies that can't stand the heat of the current crackdown on business practices, get out of the kitchen—and relocate to Winstonia, writes Paul Winston in this week's commentary. Page 6

Budget decisions bad public policy

Lawmakers' attempts to balance state budgets by tapping insurance-related revenue sources are irresponsible and, in some cases, threaten to undermine policyholder protections, this week's editorial says. Page 8

Lloyd's circulates reform proposals

Lloyd's of London has completed an initial consultation period for its market reform proposals and has circulated details of the plans to the entire market. Page 51

Departments

Advertiser Index 54
Classifieds 52
For the Record 55
Insurance Services Guide 48
International 51
Letters 8
Opinions 8
Products & Services 50
Ticker 55
World News 51

REPORTING WEEKLY ON CORPORATE RISK, EMPLOYEE BENEFIT AND MANAGED HEALTH CARE NEWS

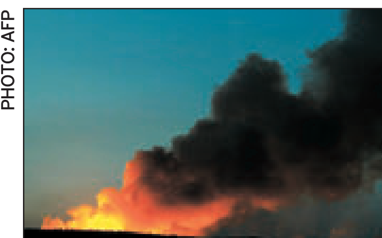
Business Insurance (ISSN 0007-6864) Vol. 36, No. 29, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. $4 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. 0293512, GST No. 136760444, Printed in U.S.A.

Copyright © 2002 by Crain Communications Inc.

CONTINUED FROM PAGE ONE

11 terrorism losses and will record an additional $120 million second-quarter loss from investments in telecommunications and other companies. XL said the reserve increase includes $135 million in reinsurance reserves stemming from higher-than-expected Sept. 11 business interruption losses and from XL's exposure to Lloyd's of London Central Fund claims as a reinsurer. The remaining $65 million of the increase is for accident and health business written by XL's Lloyd's operation, which covered more World Trade Center victims than previously believed, XL said.

PHOTO: AFP



The Chediski-Rodeo wildfire in Arizona burned over 468,000 acres

Arizona wildfire claims at $120 million: ISO

Property insurers can expect to see claims totaling an estimated $120 million from the Chediski-Rodeo wildfire in the area of Show Low, Ariz., according to the Insurance Services Office Inc.'s Property Claim Services unit. The fire burned more than 468,000 acres and destroyed about 300 structures. The lion's share of the losses will fall on homeowners insurers, while commercial insured losses total about $15 million.

D&O insurer ordered to pay defense costs

An American International Group Inc. unit must defend the directors and officers of bankrupt retailer County Seat Stores Inc. in a lawsuit filed by the bankruptcy trustee, despite the insurer's contention that its policy bars the coverage of such actions, a federal bankruptcy judge in New York has ruled. While National Union Fire Insurance Co. of Pittsburgh, Pa., argued that its policy excludes coverage when a company sues its own directors and officers, the court found that a bankruptcy trustee is distinct from the bankrupt company and that the exclusion does not apply. Federal courts have been divided on the issue. The 8th and 11th U.S. Circuit Courts of Appeal have upheld rulings barring coverage in similar actions.

Late News

Swiss Re securitizes natural catastrophe risks

Swiss Reinsurance Co. has used a capital markets transaction to obtain $255 million in protection against a number of natural catastrophe risks. The protection is through a financial contract with Pioneer 2002 Ltd., a Cayman Islands-based special-purpose vehicle that issued $255 million in securities to back the contract. Under the contract, Pioneer will replenish Zurich-based Swiss Re's capital if any of the specified catastrophes occur over the deal's four years. The amount of Swiss Re's recovery would be based on physical parameters, such as earthquake strength or wind speed.

PHOTO: NOAA

Gallagher posts gains in revenues, profits

Buoyed by increasing insurance rates and by new business, broker Arthur J. Gallagher & Co. reported growth in revenues and profits for the first half of 2002. Brokerage revenues—those derived from commissions and fees—were up 19.9% for the six months to $481.6 million; and total revenues, which include investment income, were up 22.2% to $526.3 million. Net income at the Itasca, Ill.-based broker rose 35.5% to $68.1 million.

Check out Businessinsurance.com

To get breaking news as it occurs, visit *Business Insurance*'s free online Daily News, at *www.businessinsurance.com.* Sign up for your daily e-mail of breaking news.

All the material in the Late News column, as well as other content in this week's issue, is generated from daily news postings that appeared on the Web site in the previous week.

Jury tosses towns' claim for Valdez expenses

Exxon Mobil Corp. does not have to pay six Alaskan municipal governments any additional sums for expenses related to the 1989 Exxon Valdez oil spill, an Alaska Superior Court jury has decided. The jury found that Exxon had sufficiently reimbursed the communities for the effects of the spill, and it threw out their claim for an additional $30 million in damages.

Briefly noted

The National Conference of Insurance Legislators has endorsed a resolution urging Congress to expand the **Risk Retention Act** to allow risk retention and purchasing groups to cover all lines of commercial property and liability insurance except workers compensation. The groups currently are also barred from covering property risks....The Senate Appropriations Committee has approved giving the Labor Department $2 million to issue a new **ergonomics rule** if Secretary of Labor Elaine Chao were to decide to do so. Insurers had feared that the committee would insert an unrelated ergonomics bill into the appropriations legislation, requiring an ergonomics standard within two years....A Texas worker plans to ask the Texas Supreme Court to review an appeals court ruling that the **absolute pollution exclusion** bars coverage when any dispersed substance causes bodily injury, even if the environment was not contaminated and the substance was an appropriately used commercial product. The Texas 4th District Court of Appeals on July 17 rejected the worker's motion for a rehearing of its earlier ruling that overturned a lower court's decision (*BI*, May 20).

Rates continuing upward trend: CIAB

Commercial insurance rates continued to climb in the second quarter of 2002, and the trend appears set to continue, according to a recent survey by the Council of Insurance Agents & Brokers.

"Our members report commercial insurance rates show no signs of peaking," Ken A. Crerar, president of the Washington-based CIAB, said in a statement.

Survey results are based on the responses of 136 agents and brokers. Of those producers, 32% reported that rates for large commercial policyholders increased between 20% and 30% in the second quarter; 31% reported that rates increased between 30% and 50%; 4% said rates increased between 50% and 100%; and 3% said rates rose by more than 100%.

Medical malpractice liability rates for all commercial policyholders saw some of the highest increases, according to the CIAB, with 22% of respondents reporting increases of between 50% and 100% and 18% reporting malpractice rates increasing by more than 100%. Umbrella risks also saw large increases, with 17% of respondents reporting 50% to 100% increases and 16% reporting hikes of greater than 100%.

Construction risks for all commercial policyholders saw the highest proportion of 30% to 50% increases, with 38% of respondents reporting increases in that range.

The CIAB's Commercial Insurance Market Index can be viewed online at *www.ciab.com.*

—By Gavin Souter

RATES KEEP RISING IN 2002

Commercial property/casualty insurance buyers reported sharp rate hikes in the second quarter

Company size	Up 20-30%	Up 30-50%
Small (<$25,000 in commissions & fees)	35%	7%
Medium ($25,000-100,000)	43%	28%
Large (>$100,000)	32%	31%

Source: CIAB

status quo

Satisfied?
But who can you turn to? A specialist. Dempsey Myers.
We offer accurate, unbiased and timely claim preparation and resolution to Fortune 500 companies. And that's all we do.
To help you maximize your recovery. Quickly. Efficiently.
Because we know what's on the line.

Dempsey, Myers & Company LLP
THE PEOPLE YOU TRUST.

Business Interruption • Property Damage • Employee Dishonesty • BI Values • Litigation Support

www.dempseymyers.com or call us at 800.762.5052

dm

BI 07-22-02 A 3 7/19/02 3:40 PM Page 1

Hearing precedes legislation on health hazards of mold

By MARK A. HOFMANN

WASHINGTON—Congress needs to learn the true health hazards presented by mold in buildings before it takes legislative action on the issue, according to a key lawmaker.

One of the major problems facing legislators "is the lack of scientific evidence as to the direct correlation between mold damage and adverse health effects," said Rep. Sue Kelly, R-N.Y., as she opened a joint hearing last week concerning the hazards presented by mold. The hearing took place before the House Financial Services Committee's subcommittees on Oversight and Investigations, which Rep. Kelly chairs, and Housing and Community Opportunity, which Rep. Marge Roukema, R-N.J., chairs.

The mold issue has become crucial for property/casualty insurers, which have been facing skyrocketing mold-related claims in recent years.

Gordon Stewart, president of the New York-based Insurance Information Institute, told the panel that mold claims costs in Texas alone rose 560% between 2000 and 2001. He added that mold has long been excluded from homeowners policies. "The simple presence of mold, like termites and damage from vermin, is considered a home maintenance issue and not covered by insurance," he said.

Nevertheless, insurers are facing more lawsuits seeking to force coverage, he said. "There was not a new plague abroad in the land," said Mr. Stewart, who said trial lawyers and others are to blame for the surge in frequency and severity of claims.

"Let's use the right definition," said Dr. Howard M. Sandler, president of

See MOLD/page 55

PHOTO: AP/WIDE WORLD

The Deutsche Bank building, draped in netting, near the site of the World Trade Center, requires mold remediation that is estimated in the tens of millions of dollars.

Massachusetts Blues to offer new health plan

By JERRY GEISEL

BOSTON—The largest health care plan in Massachusetts soon will offer a new health care plan that aims to lower employer premium costs and increase employee involvement in health care decisions.

The new plan, which Blue Cross & Blue Shield of Massachusetts will begin offering in September, links a high-deductible preferred provider organization to an employer-funded spending account with a rollover feature to reimburse employees for covered services that are subject to deductibles, coinsurance or copayments.

The new arrangement could, depending on plan design, cost 15% to 40% less compared to its standard health maintenance organization plan.

The plan—to be linked to BCBSMA's Blue Care Elect PPO—also will get employees more involved in determining how to use health care services, BCBSMA executives say. That is because of their potential exposure to higher out-of-pocket costs and their control over the spending account.

"This gets employees more involved in health care decision making," said Alan Rosenberg, vp-marketing with Boston-based BCBSMA.

Employers will be able to choose from several plan designs with annual individual deductibles ranging from $1,000 to $5,000. Preventive care, such as annual checkups and screening tests, will not be subject to the deductibles and will have separate copayment schedules.

Employers will fund the spending accounts, which will be administered by Wells Fargo Flex Benefit Services, to reimburse enrollees' out-of-pocket expenses for covered services, up to 50% of the deductible amount.

Employees will be able to roll over unused account balances to cover expenses incurred in succeeding years, a feature that the Internal Revenue Service recently ruled was valid.

Mr. Rosenberg said adoption of the plans will be gradual. "It will take some time and not be for everyone," he said.

But the plan should appeal to employers that want to hold down costs and encourage employees to be more involved as health care consumers, he said.

The new plan, which has been approved by the Massachusetts Department of Insurance, will be available to both insured and self-insured employers.

BCBSMA, with 2.4 million enrollees, is Massachusetts' largest health care plan.

Discussing compensation ruled improper grounds for firing

Court bars worker's termination

By JUDY GREENWALD

LOS ANGELES—A California appellate court ruling that an employee cannot be fired for discussing company bonuses with fellow employees gives dismissed workers another avenue to sue their employers, the defense attorney in the wrongful termination case says.

Some employer attorneys also believe the court should have ruled that the lawsuit was pre-empted by the National Labor Relations Act.

The July 20 decision in *Sharron D. Grant-Burton vs. Covenant Care Inc.* decision likely will be appealed to the California Supreme Court.

The California Court of Appeals decision involves Ms. Grant-Burton, a program manager at Aliso Viejo, Calif.-based Covenant Care who was fired in 1999, six days after she attended a corporate meeting where bonuses were discussed among participants. She was told her discharge was based on what she had said at the meeting.

According to the decision, at the corporate meeting one of seven Covenant Care directors brought up the subject of bonuses, asking, "Hey, you guys, how is your bonus structure? How is it set up?" A discussion on bonuses then ensued,

with the directors who did not receive bonuses surprised to learn that others did.

During the meeting, according to the decision, Ms. Grant-Burton said that she did not receive a bonus because her supervisor "did not believe in them." But she added that she did not care because Covenant Care was paying for her continuing education.

Six days later, she was terminated and a letter addressed to her from the director of human resources said that Ms. Grant-Burton's participation in the meeting was "the final straw," court papers show.

A unanimous three-judge panel of the state appellate court in Los Angeles overturned a lower court's dismissal of the case and held that employees "have a fundamental right rooted in public policy to join in a discussion with other employees about whether they were being equitably compensated."

See TERMINATION/page 54

Ex-regulator facing challenge in California race

Garamendi says he'll mend fences with insurers as commissioner

By ROBERTO CENICEROS

"If an insurer hasn't sued me by 8 a.m., I consider it a slow day," John Garamendi often quipped when he served as California insurance commissioner from 1991 to 1995.

The quote was one of several he regularly fed reporters back then to tout his pro-consumer stance and his testy relations with insurers.

Now Mr. Garamendi is campaigning to serve once again as California's insurance commissioner, but he is working to convince insurers that things will be different if he is elected in November.

In recent meetings with insurers, the Democratic candidate told them he would continue to be a strong consumer advocate. Yet he also told insurers he is more interested in cooperating with them than in antagonizing them.

Times have changed, Mr. Garamendi said. During the 1990s, he had a mandate to implement Proposition 103, a ballot initiative that rolled back and froze certain property/casualty insurance rates.

Former Insurance Commissioner John Garamendi is pledging to cooperate more with California's insurers.

Prop. 103 called for several other measures unfavorable to insurers. It ended the appointment of insurance commissioners, for example, requiring that they be elected by voters. With that, Mr. Garamendi became California's first elected commissioner.

The workers compensation market also differs dramatically today, Mr. Garamendi noted. Instead of implementing loss control measures, insurers during the early 1990s sought constant rate increases, Mr. Garamendi said. He recalled that he encouraged them to change that behavior, which initially caused friction.

But California today faces a hardening workers comp market, so the job of commissioner will require encouraging insurers to bring their ca-

See COMMISSIONER/page 56

BI 07-22-02 A 4 7/19/02 3:42 PM Page 1

Education group forms health insurance captive

By JERRY GEISEL

WASHINGTON—Educational associations in the nation's capital now have a new source of health insurance for their employees.

Assn. Mutual Health Insurance Co., a trade association captive sponsored by the American Council on Education, will give policyholders better coverage at a lower cost than they could obtain on their own, the captive's organizers say. The council is an 86-year-old Washington-based trade group whose members are educational institutions and associations.

"I think there will be a significant cost savings," said Jaininne Edwards, executive director of the captive, which was licensed recently by the District of Columbia Department of Insurance.

ACE

The program will be a boon to educational trade groups in Washington, many of which have small staffs and virtually no purchasing leverage in the group health insurance market.

"These are small employee groups, and they have difficulty getting medical insurance at an affordable price," said Henry Lawrie, a partner with the law firm McGuire Woods in Chicago. The firm, along with benefit consultant Watson Wyatt Worldwide, worked with the trade group to examine health insurance options.

Through a captive program, members will reap cost savings through the economies of scale a large group program can provide, Ms. Edwards said. The captive will use provider networks offered through two preferred provider organizations—National Capital PPO and Alliance PPO L.L.C., a unit of Mid Atlantic Medical Services Inc. Administrative services will be provided through a captive unit, Select Benefit Plan Administrators, which will be staffed by several former American Council on Education employees, including Ms. Edwards.

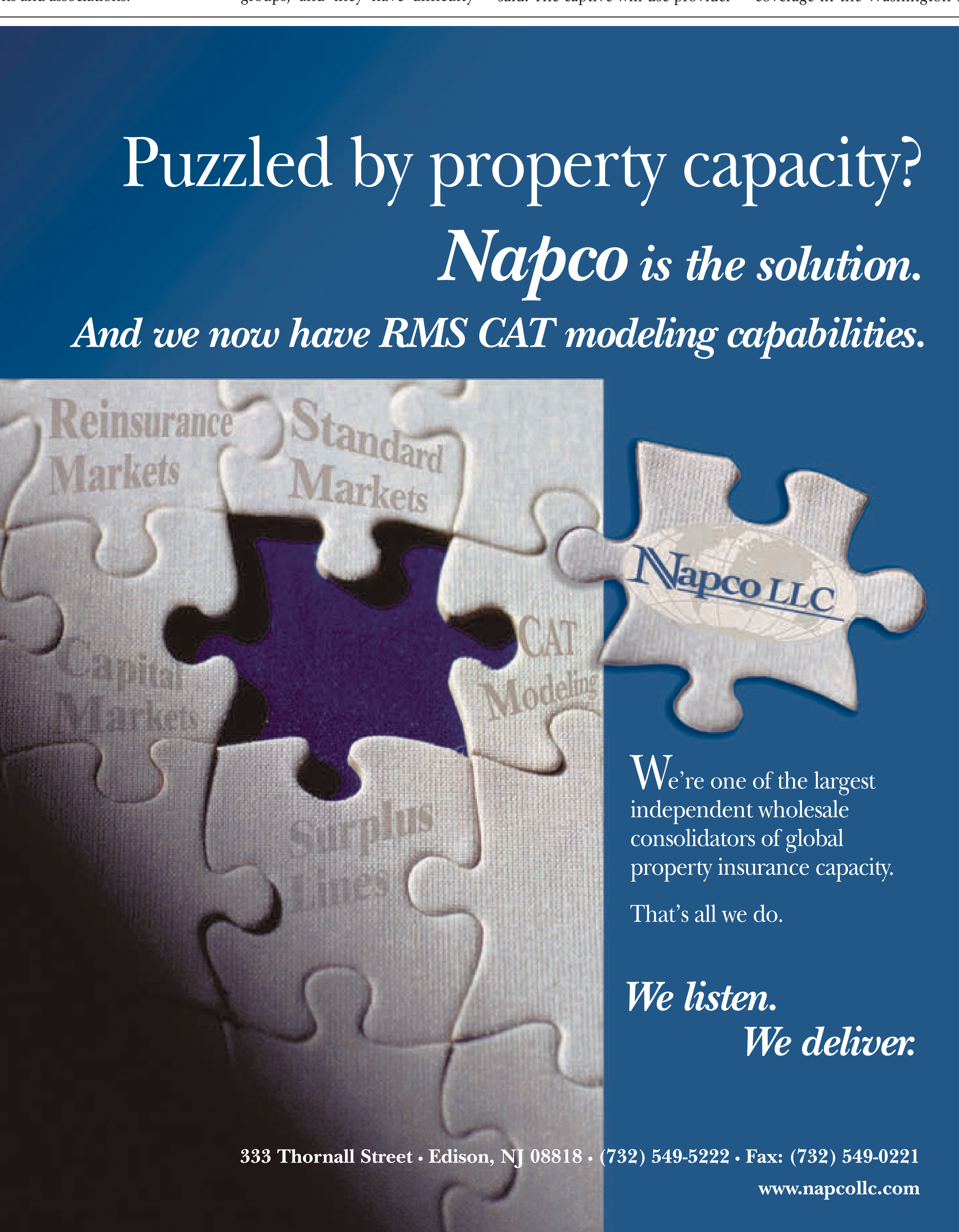
"If a patient has an issue, they can talk to me," Ms. Edwards said.

Another key attraction of the program for policyholders is that it will ensure long-term stability of coverage in the Washington market, which has seen an exodus of health plans in recent years.

"One association member told me they were losing coverage because the carrier was getting out of the small-employer market," Ms. Edwards said.

Most in-network services will be covered at a 90% level, though certain preventive services will be fully covered. Services provided outside the PPO networks will be covered at a 70% rate.

Mr. Lawrie said he expects the program to generate a premium flow of about $4 million during its first full year.



Nominations sought for Risk Manager of the Year

You or someone you know could be the next Risk Manager of the Year.

But to win recognition, now is the time to throw your hat in the ring. The 2003 nomination form is now available for the Risk Manager of the Year and Risk Management Honor Roll awards, which are co-sponsored by *Business Insurance* and the Risk & Insurance Management Society Inc.

Anyone involved in risk management for a corporation, financial institution, not-for-profit institution or government entity can be nominated. The person need not practice risk management full time, but the candidate must be a full-time employee of the corporation, institution or government entity for which he or she practices risk management. Administrators and executive directors of self-insurance funds or self-insurance pools are eligible for nomination.

The candidate may be nominated by anyone familiar with his or her work, such as a superior, the risk management staff, a colleague with another company or a broker, insurer or other service supplier. Previous candidates selected for the Risk Management Honor Roll are eligible to be renominated for the Risk Manager of the Year Award five years after being named to the Honor Roll.

To receive detailed information about the award and a nomination form, please contact Paul Winston, Editor, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601; 312-649-5442; *pwinston@crain.com*. The names of prospective candidates will remain confidential.

The deadline for nominations is Nov. 19, but to complete the nomination form and give you or your candidate the best chance of winning recognition, the time to start the nomination process is now.

BI 07-22-02 A 6 7/19/02 4:03 PM Page 1

6 Business Insurance July 22, 2002

Carvill america
3 column x 6"

Commentary

Winstonia offers corporate refuge

At a time when corporations in America are under fire on nearly all fronts for a raft of ethical and management missteps, it seems like a good time to jumpstart the marketing and promotion efforts of a new breed of onshore offshore domicile: Winstonia.

Winstonia would offer embattled managements a refuge from the now-hostile climate in the U.S. marketplace. When even President Bush starts blasting corporations for their behavior, it's time to look for a more receptive environment in which to practice New Capitalism. Winstonia offers a flexible and supportive environment to conduct business in a manner sure to result again in a return to double-digit gains in profits.

After years of gorging themselves on soaring dotcom and telecom stock returns, investors and analysts today are starving for a winner. Redomesticating to Winstonia can help you make that happen.

Paul D. Winston

Winstonia was founded several years ago as a haven for onshore offshore insurance transactions, seeking to provide a more suitable alternative for relocating headquarters than embattled domiciles like Bermuda, Greenland and Fantasy Island. Unfortunately, the allure and cachet of setting up shop in the tiny country—which coincidentally shares space with my station wagon and bikes in a structure behind my house in suburban Chicago—never quite took off.

Even after Congress introduced legislation to make it less attractive for insurers and other companies to relocate their headquarters offshore—legislation that I should point out does not mention Winstonia at all—there was less than a groundswell of interest in my valuable real estate.

Now, with corporations facing renewed scrutiny in the United States, and the threat of tax penalties still looming if they should consider moving to some of those more traditional domiciles, Winstonia is recasting its image as a new land of opportunity. Winstonia is a flexible and supportive domicile that will allow companies of all sorts to conduct business in the profitable manner to which they have grown accustomed.

Let me review for you some of the benefits of locating your headquarters to Winstonia.

Like many other offshore domiciles, Winstonia has no income taxes, just a moderate redomestication fee of $10,000, payable in cash, preferably in unmarked bills. Unlike those other tax havens, however, Winstonia has not been singled out by the OECD as having a "harmful" tax regime. Did I mention that we only accept cash?

Winstonia has no courts in which messy shareholder lawsuits can be brought. This helpful situation could result in dramatic savings on your D&O premiums. Also on the legal front, Winstonia has no extradition treaties, which means the long arm of the law can't reach you here.

Our corporate auditors don't make dumb accounting mistakes; or at least they don't get caught. Also, in Winstonia, you can restate your financial results as often as you like. We don't see our role as standing in the way of your efforts to get it right.

As for booking revenues you don't actually have, or accounting for pro forma earnings, we know you are good for them. Eventually.

For those among you caught up in this corporate governance fad, we can easily satisfy demands for independent directors with members of the Winstonia ruling family. We currently number four, but in-laws can be arranged if your needs are greater.

In total, we think corporations will recognize the considerable advantages of hanging their shingle under the shingles of Winstonia.

It is true that, like many other sovereign nations, Winstonia has suffered some fiscal setbacks in recent years. Our expectations of filling the royal coffers from providing domiciliary services to insurance enterprises were not realized. As a consequence, we have undertaken this shift in strategy, and fully expect that one day soon Winstonia could rival Delaware for the number of corporations making it their home.

But you'd better act now, as this opportunity can't last forever. If we do not get any takers within the near future, Winstonia's bursar informs me we will be forced to enter into a bidding war with Nevada over the U.S. contract to house the nation's nuclear waste stockpile.

The Commentary of Paul D. Winston, editor of Business Insurance and emperor of Winstonia, appears fortnightly and on www.businessinsurance.com. He can be reached at pwinston@winstonia.net.

The most sought after issue ...

When you need to know who the biggest and the best are, you'll turn to *BI*'s annual report on the top agents and brokers, in the U.S. and worldwide. This issue includes exclusive charts, rankings and in-depth profiles.

For extra copies of Agent/Broker Profiles publishing July 22, 2002 (cover price is $30)

Just call us toll-free at (888) 446-1422 or outside the U.S. at (313) 446-0450

www.businessinsurance.com
Business Insurance

We offer quantity discounts and an overnight option, too.

Document3 7/15/02 11:18 AM Page 1

See opportunities
instead of roadblocks

Your company confronts numerous risks that can be obstacles to achieving your long-range vision. But who can help you take a new look at those roadblocks, turn them to your advantage, and clear the path to your destination?

Aon's global network of experts can help you successfully anticipate, measure, and exploit business risk to create efficiencies, improve profitability and build value.

As the worldwide leader in integrating risk management and human resource consulting, we spot barriers, minimize them, and help you capitalize on the resulting opportunities.

Contact Aon and break down the barriers to success.

www.aon.com

Business Insurance

Vice President/Publisher: Martin J. Ross III (New York)

Editor: Paul D. Winston (*Chicago*)
Editor-at-Large: Jerry Geisel (*Washington*)
Managing Editor: Regis J. Coccia (*Chicago*)
Assistant Managing Editor - Graphics: Kathy L. Barnes (*Chicago*)
Assistant Managing Editor - News: Gavin Souter (*New York*)
Senior Editors: Meg Fletcher, A.R.M. (*Chicago*); Judy Greenwald (*San Jose*); Mark A. Hofmann (*Washington*); Dave Lenckus (*Tucson*); Douglas McLeod (*New York*); Edwin Unsworth (*France*); Joanne Wojcik (*Denver*); Rodd Zolkos (*Chicago*)
Bureau Chief: Roberto Ceniceros (*Los Angeles*)
Associate Editors: Michael Bradford (*New Orleans*); Michael Prince (*New York*); Sally Roberts (*Denver*); Sarah Veysey (*London*)
Correspondents: Carolyn Aldred (England), Gerard O'Dwyer (Finland) and Kate Tilley (Australia)
Copy Desk Chief: Matt Scroggins (*Chicago*)
Copy Editors: Mary B. Nick (*Chicago*); Joe Walker (*Chicago*)
Directory Editor: Kevin P. Edison (*Chicago*)
Assistant Directory Editor: Carrie A. Brittain (*Chicago*)
Assistant Graphics/Online Editor: Amy R. Kepka (*Overland Park*)
Executive Assistant / Reprint Manager: Karen Brown Tucker (*Chicago*)
Editorial Cartoonist: Roger Schillerstrom (*Chicago*)
Editorial Intern: NIcole Voges (*Chicago*)

Advertising Director: Kenneth F. Luker Jr. (*New York*)
Midwest Advertising Manager: Robert L. Niesse (*Chicago*)
District Managers: Chris Crain (*New York*); Lori Lieberman (*Los Angeles*); Robert B. Murray (*New York*) ; John L. Phillips (*Chicago*); Ron Kolgraf (*Boston*)
Classified Advertising Manager: Irais Amleshi (*Chicago*)
Assistant to the Publisher: Pat Ghazvini (*New York*)
Advertising Traffic: Stephanie Cress (*New York*)
Production Manager: J. Thomas Janka (*Chicago*)

Director of Communications: Ronnie I. Drachman (*New York*)
Promotion Coordinator: Barbara O'Brien (*New York*)
Promotion Manager: Michael Ambrosio (*New York*)

EDITORIAL: Chicago: 312-649-5200; Denver: 303-698-7601; London: 207-457-1400; Los Angeles: 323-370-2455; New Orleans: 504-364-1908; New York: 212-210-0100; San Jose: 408-774-1500; Tucson: 520-579-1937; Washington: 202-662-7200
ADVERTISING: Boston: 617-292-4856; Chicago: 312-649-5276; New York: 212-210-0133; Los Angeles: 323-370-2456
COMMUNICATIONS: New York: 212-210-0132
SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by Crain Communications Inc.

Chairman: Keith E. Crain
President: Rance Crain
Secretary: Merrilee Crain
Treasurer: Mary Kay Crain
Executive Vice President/Operations: William A. Morrow
Senior Vice President/Group Publisher: Gloria Scoby
Group Vice President/Technology, Circulation, Manufacturing: Robert C. Adams
Corporate Director/Production & Manufacturing: Dave Kamis

G.D. Crain Jr. Founder (1885-1973)
Mrs. G.D. Crain Jr. Chairman (1911-1996)
S.R. Bernstein Chairman-executive committee (1907-1993)

Published weekly at 360 N. Michigan Ave., Chicago, Ill. 60601-3806, Fax: 312-280-3174, E-mail: *biweb@crain.com*. Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704, CRAIN COM NYK; 473 Fairfield Ave., Gretna, La. 70056, Fax: 504-364-1337; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048- 4947, Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; New Garden House, 78 Hatton Garden, London EC1N 8LD England, Fax: 207-457-1440; 10 Grande Rue, Jarze, France; 8157 N. Torrey Place, Tucson, Ariz. 85743, Fax: 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214; Fax: 303-733-2244; 11133 W. 108th St.,Overland Park, Kan. 66210, Fax: 312-280-3174. $4 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). Don Mierendorf, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, *Business Insurance*, 1155 Gratiot Ave., Detroit, Mich. 48207-2912, Phone: 888-446-1422 or 313-446-0450, Fax: 313-446-6777. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For reprints or reprint permission: Karen Brown Tucker, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806, 312-649-5319, Fax: 312-280-3174.

To subscribe, call 888-446-1422, or 313-446-0450 outside the United States.

BPA INTERNATIONAL — AMERICAN ABM BUSINESS MEDIA

www.businessinsurance.com

Editorial

Legislatures shouldn't raid insurance funds

SOME STATES ARE TAPPING insurance-related sources to try to avert general budget crises caused by revenue shortfalls.

These are extreme and dangerous measures that threaten to undermine the protections that such insurance mechanisms are intended to provide. This indirect taxation of insurance is a sneaky, backdoor way to fix a problem that requires a more direct and broad-based solution. Clearly, in an election year, politicians in these states lack the courage to do what's right and instead opt for the expedient.

States are taking a wide variety of actions intended to balance their budgets. These include drawing on funds created to cover the claims of insolvent insurers as well as those used to pay certain types of claims, such as workers compensation funds. Some states are eliminating the tax deductibility of premium taxes, as a means to fill depleted coffers. Others are reallocating funds for insurance departments to be used for other purposes.

These moves are irresponsible, deceptive and could have terrible consequences for their insurance-buying constituents.

Taking money from guaranty funds, as New Jersey has done, lessens the money available for its original purpose, which is to protect policyholders in the event of an insurer insolvency. State lawmakers, recognizing this, tried to fix the risk of a shortfall by dramatically scaling back the types of claims eligible for relief from the fund. While that may reduce the potential liabilities facing the now diminished fund, it only lessens the protections available to policyholders in a different manner.

In Minnesota, lawmakers overrode a veto by lame-duck Gov. Jesse Ventura, enabling the state to tap into workers compensation funds to meet general needs. That could have terrible consequences for workers comp claimants who rely on those funds, and it simply delays the day of reckoning for lawmakers now seeking a quick fix to a serious problem.

In Montana, lawmakers are calling on the state workers compensation fund to accelerate the repayment of loans the state made to the fund to cover a budget shortfall. This emergency cash call potentially weakens the fund's financial resources available to pay claims, which are set not by legislative fiat but by unpredictable liabilities. The move nearly also resulted in the hasty consideration of a proposal by the Montana fund to completely restructure its operations. While such a move may be worthwhile, the two-week legislative session would not have allowed time for adequate consideration of the move and its implications. The Montana fund, recognizing this and bowing to insurance industry outcry, agreed to shelve the proposal until the 2003 session.

And in a handful of states, including Illinois, Oklahoma, Massachusetts and Rhode Island, legislators have tapped insurance department resources for other state purposes. Limiting the money available for oversight of insurance companies at a time when corporate oversight in general may be deficient seems irrational. It is also unfair to the insurance companies, and by extension their customers, whose premium taxes and fees go toward funding those departments, not for supporting other state programs.

These actions are also troubling because they are occurring as insurance premiums are soaring and capacity is being withdrawn from certain markets. In such an environment, it is shortsighted of state lawmakers to potentially increase the financial burdens on insurers and their policyholders.

If state governments have inadequate resources to meet their costs then they either should adjust their budgets or their taxation. They should not take money from a specific industry in a classic case of robbing Peter to pay Paul. Eventually, such misguided moves will come back to haunt lawmakers, if insolvencies or market problems create a need for those resources and they are not there.

If states have mismanaged their financial situation, then they need to claim responsibility and take fair moves to make up their shortfall. It may not be pleasant politically, but it's more honest than trying to pick the pockets of the insurance industry to make up for their fiscal mistakes.

Schillerstrom

"...AND IN THE UNLIKELY EVENT OF THE PILOT OPENING THE COCKPIT DOOR, BULLET-PROOF VESTS WILL AUTOMATICALLY DROP...."

Letters to the Editor

Excessive litigation cause of med mal crisis

To the editor: I wish to provide my comments regarding the crisis in the U.S. medical malpractice marketplace at present.

As a professional reinsurance intermediary, our firm is faced on a daily basis with a firsthand view of this crisis. Our duty as an intermediary often involves partnering various insurers and underwriting agencies in this marketplace with supporting reinsurance organizations.

I've heard comments that insurers/reinsurers are suddenly charging excessively high rates or exiting the medical malpractice marketplace due to poor investment returns. As is the case with today's adverse investment climate, most insurance/reinsurance organizations are suffering poor investment returns. Yet you don't see such carriers exiting the automobile or homeowners marketplace because of poor investment returns. Furthermore, one must consider the investment portfolio of a majority of participants in the insurance/reinsurance industry offsets/supports a variety of property/casualty classes, not just medical malpractice business.

When will everyone wake up and recognize the primary reason for the current crisis in the medical malpractice marketplace is due to excessive and/or frivolous litigation? Turn on the television or radio at any time during the day and it's likely you'll be solicited by a personal injury law firm. Aggressively soliciting new clients and suing insurance/reinsurance organizations is the mantra of these law firms.

While there is some truth in the fact that insurers/reinsurers have been charging less than adequate rates (which is the result of a supply and demand cycle), the large lawsuit verdicts are sole reasons for the poor results the insurers have suffered and, thus, their departure from this marketplace.

As is the case with any cyclical market during a down period, a new provider eventually enters and provides capacity. Yet with respect to the medical malpractice marketplace, this hasn't been the case. The openly litigious climate in states such as California and Florida is deterring new insurers/reinsurers entering this market and providing the market solution everyone is hoping for.

While lawsuits do serve a purpose in punishing incompetent medical practitioners, there must be a limit. When the state legislatures step in and institute some type of tort reform, the medical malpractice marketplace will once again be an attractive market for insurers/reinsurers. Until such time, this market will remain a feeding ground for plaintiffs' attorneys.

Andy Pyle
Vp
Cypress Creek Intermediaries Inc.
Heathrow, Fla.

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

CB 07-22-02 A 10 7/18/02 3:07 PM Page 1

Inside

Business Insurance's ranking of the 100 largest brokers of U.S. business page 16

Use one broker or multiple? Buyers see pros, cons to both approaches page 18

Employee benefits becoming a bigger part of many brokers' business page 22

Mergers and acquisitions among brokers expected to continue at brisk pace page 26

Profiles of the world's largest insurance brokers:

Marsh & McLennan Cos. Inc. page 32

Aon Corp. page 34

Willis Group Holdings Ltd. page 34

Arthur J. Gallagher & Co. page 38

Jardine Lloyd Thompson Group P.L.C. page 38

Acordia Inc. page 42

HLF Group P.L.C. page 44

Alexander Forbes Ltd. page 47

Brown & Brown Inc. page 48

Hilb, Rogal & Hamilton Co. page 49

The full 2002 Directory of Agents & Brokers is available online in the directories area of *www.businessinsurance.com.* The online database is free to subscribers of *Business Insurance.* PDF copies of the directory can also be purchased online.

Brokers working harder since impact of Sept. 11

By **DOUGLAS McLEOD**

No change in the insurance brokerage landscape has ever come as suddenly and starkly as that of Sept. 11.

For some brokers, the effects of the terrorist attack on the World Trade Center were direct and devastating. Marsh & McLennan Cos. Inc. lost 294 employees in the twin towers, where its subsidiaries occupied 15 floors, and one employee on one of the hijacked planes. Aon Corp. lost 175 employees in one of the towers, in what was the largest of its retail brokerage offices.

The two companies are still absorbing the emotional and financial blows of the attack as they work to refocus their energies on serving clients.

"The ability of Aon to do its business in New York is good at this point," said the broker's chairman and chief executive officer, Patrick G. Ryan. He added, though, that there are aspects of the disaster "we will never recover from."

"I think the industry did itself proud," said Frank C. Witthun, president and chief executive officer of Acordia Inc. in Chicago, referring to the response to Sept. 11. "It was a defining time for everybody in our business, especially considering the severe impact in our industry because of Marsh and Aon."

The workload for all brokers has increased markedly since Sept. 11, in part because of the myriad claims arising from the attacks but also as a result of the dramatically tighter property/casualty market that followed. Brokers are spending more time than ever structuring and marketing programs in the face of coverage restrictions, reduced capacity and skyrocketing rates across a wide range of insurance lines.

Brokers, as might be expected, are benefiting from the accelerating hard market, as commission-based revenues rise and demand for fee-based services increases. Most are reporting healthy revenue gains, representing both expanded business from existing clients and new accounts.

> **The response to Sept. 11 'was a defining time for. . .our business, especially considering the severe impact on our industry because of Marsh and Aon.'**
>
> *Frank Witthun*
> *Acordia Inc.*

In a reflection of the rising workload, several brokers are hiring large numbers of new employees, some noting that the otherwise-slow economy has helped them attract top-flight job candidates.

Other trends already underway before Sept. 11 continue:

- Most brokers—including the largest companies known for their Fortune 500 client rosters—are focusing intently on middle-market and small-commercial business as sources of future growth.
- Some say they are paying renewed attention to building excess and surplus lines brokerage capabilities, as the tight market forces business from the admitted market to surplus lines insurers.
- Consolidation, which has subsided among the top-ranked brokers, continues fast and furious at the lower end of the top 10, as these companies gobble up local and regional brokers and agencies throughout the country.

The shock of Sept. 11 spread throughout the insurance industry, with the hundreds of dead mourned not only by their colleagues at Marsh and Aon but also by former co-workers and friends at other brokers and insurers.

A wall outside a Marsh company cafeteria in New York became a temporary memorial, covered with notices and remembrances of those lost, Marsh Chairman Jeffrey Greenberg said during a Sept. 28, 2001, memorial service.

Both Marsh and Aon created funds to benefit victims' families and provided counseling services for families, survivors and other employees.

Both brokers also worked feverishly to resume some semblance of normal operations after the attacks. In Marsh's case, employees spread out into temporary quarters in and around New York and worked long hours to reconstruct records, reconnect systems and carry on client work, said John T. Sinnott, chairman and chief executive of brokerage unit Marsh Inc.

"People issues"—the impact of the deaths

See **BROKERS**/page 18

Brokers, buyers seek fair compensation

In hard market, brokers seeking higher fees for increased services

By **MARK A. HOFMANN**

A hard market can test the relationship between a risk manager and a broker.

Over the past several years, many risk management accounts have shifted from traditional commission-based compensation to a fee-for-service basis. During the long soft market, the fees offered brokers stability.

Now, with brokers often having to work harder to place coverage in a hard market, brokers are looking for fee increases. And, in some cases, they're getting them.

What both sides are striving for is a mutually agreeable definition of fairness, pointed out several brokers and risk managers alike.

Damian R. Testa, president of New York-based Kaye Insurance Associates, a division of Hub International Ltd., said buyers generally are "being very fair."

"They're recognizing the fact that the placements are taking a lot more effort on their part and our part. And they're usually compensating us for it. It's really hard to figure out what is it worth because we don't work on an hourly basis and we don't get billed on an hourly basis," he said.

A year ago an umbrella program might be priced and approved in one day, whereas now it might take more than one week as brokers negotiate with insurers who are insisting on significant changes to the coverage, Mr. Testa said.

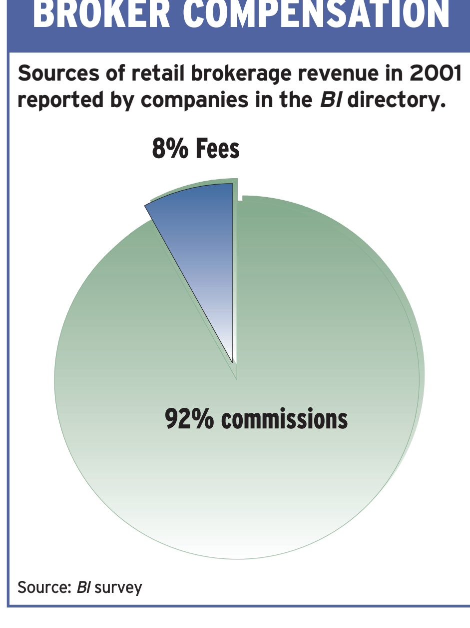
"The pricing has gone through the roof, and there's a certain amount of pain and agony giving people bad news," he said.

"I can guarantee you we're working much harder today than we were a year ago, two years ago, three years ago," said Jerry Ray, president-corporate operations at Van Gilder Insurance Corp. in Denver.

"We establish a fee that includes a profit—we are not a nonprofit organization," Mr. Ray said. He said he would bet that fees "certainly did go down" during the soft market and are currently being restrained in some cases by the brokers themselves.

BROKER COMPENSATION

Sources of retail brokerage revenue in 2001 reported by companies in the *BI* directory.



Source: *BI* survey

John Phelps, director-risk management for Blue Cross & Blue Shield of Florida in Jacksonville, said that he has paid fees to brokers in the past 11 years, regardless of market conditions.

"We're quite adamant with our brokers that they are consultants, we're paying for the consultants," said Mr. Phelps, who is a former broker. "It's always based on the work."

He called it a "win-win" situation. "It stabilizes our budget, and they don't have to worry about starving when it's a tight market and buying a new boat when it's a market where they're getting incredible rate increases that aren't justified by additional work."

Mr. Phelps said he reviews brokers by set criteria. The criteria are rated 1 to 10 and five broad categories go into a matrix. He added that he used this process to fire a broker after demonstrating that its performance was substandard.

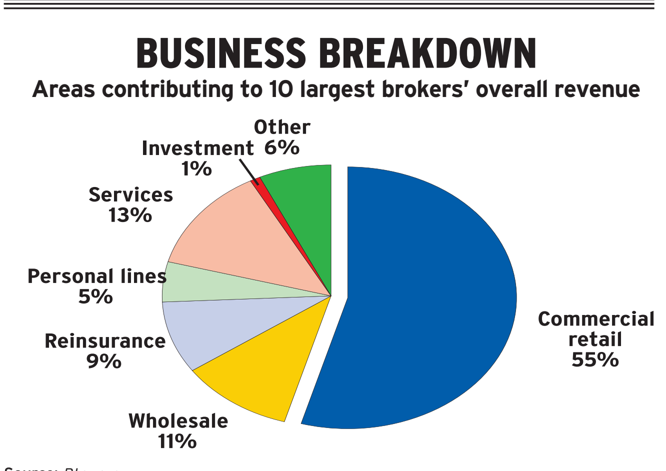
But outstanding performers can earn up to an additional 12% of their fee in cash, he said. "It's not punitive. They always get the annual fee."

"Mostly, people are trying to work out fair deals. In the larger context, there's so much

See **COMPENSATION**/page 14

BUSINESS BREAKDOWN

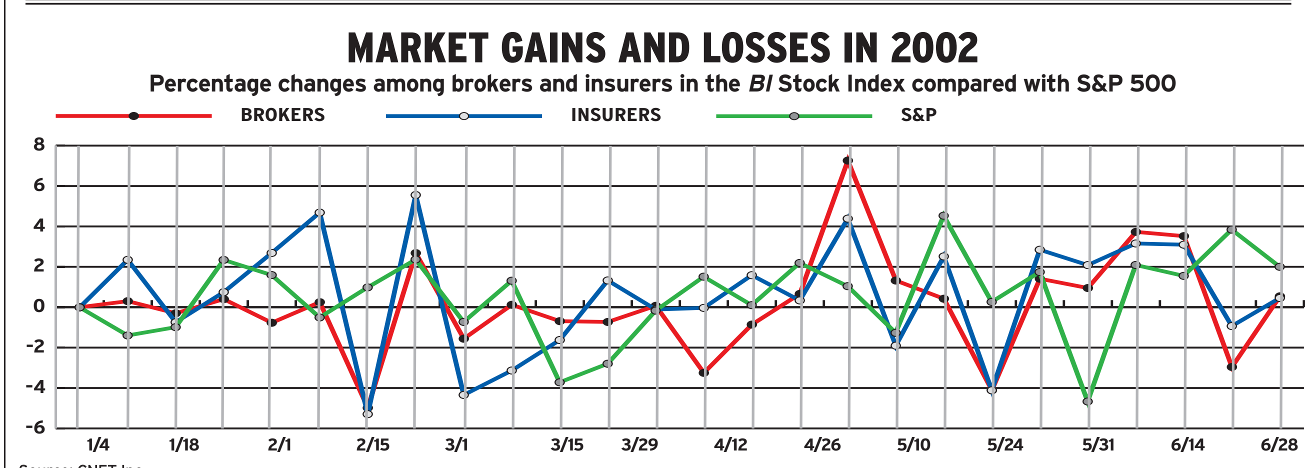
Areas contributing to 10 largest brokers' overall revenue



Source: *BI* survey

MARKET GAINS AND LOSSES IN 2002

Percentage changes among brokers and insurers in the *BI* Stock Index compared with S&P 500



Source: CNET Inc.

World's 10 largest insurance brokers

Ranked by 2001 brokerage revenues

Rank	Company Address/Phone/Fax/Web site	Chief Executive Officer	Revenues: 2001 brokerage revenues	Revenues: % change	Employees: 2001	Employees: % change	Offices: 2001	Offices: % change	Percentage of revenues: Commercial retail	Wholesale	Reinsurance	Personal lines	Services	Investment	Other
1	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas, New York, N.Y. 10036 212-345-6000 Fax: 212-345-3833 *www.marsh.com*	Jeffrey W. Greenberg, chairman/CEO	$7,312,000,000	5.7%	52,000	3.0%	588	0.0%	45	2	5	0	22	0	26
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601 312-381-1000 Fax: 312-381-6032 *www.aon.com*	Patrick G. Ryan, chairman/CEO	$5,597,000,000	9.0%	43,000	7.5%	530	-3.6%	39	8	10	0	16	0	27
3	Willis Group Holdings Ltd. 10 Trinity Square, London, EC3P 3AX, England 44-207-488-8111 Fax: 44-207-481-7096 *www.willis.com*	Joseph J. Plumeri, chairman/CEO	$1,422,900,640 [1]	9.1%	10,406	-0.6%	162	-9.0%	67	11	18	2	2	0	0
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143 630-773-3800 Fax: 630-285-4000 *www.ajg.com*	J. Patrick Gallagher Jr., president/CEO	$873,024,000	21.9%	6,488	24.7%	84	7.7%	54	4	8	1	29	4	0
5	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London, EC3N 2PH, England 44-207-528-4444 Fax: 44-207-528-4185 *www.jltgroup.com*	Steve McGill, CEO	$528,333,200 [1]	14.3%	4,163	0.1%	44	0.0%	23	26	23	0	27	1	0
6	Acordia Inc. [2] 150 N. Michigan Ave., Suite 4100, Chicago, Ill. 60601 312-423-2500 Fax: 312-423-2508 *www.acordia.com*	Frank Witthun, president/CEO	$480,556,000	17.7%	4,317	1.0%	170	-1.2%	74	5.2	0	7.5	11.5	1.2	0.6
7	HLF Group P.L.C. Friary Court, Crutched Friars, London, EC3N 2NP, England 44-207-560-3000 Fax: 44-207-560-3502 *www.heathlambert.com*	David Margrett, CEO	$425,432,880 [3]	4.8%	3,970	-0.3%	145	0.0%	47	24	21	7	1	0	0
8	Alexander Forbes Ltd. 61 Katherine St., Sandown, 2196, South Africa 27-11-269-0000 Fax: 27-11-269-1111 *www.alexanderforbes.com*	Graeme Kerrigan, group CEO	$408,867,265 [4]	6.1%	4,995	-5.9%	57	-6.6%	59	11	2	12	6	0	10
9	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114 386-252-9601 Fax: 386-239-5729 *www.bbinsurance.com*	J. Hyatt Brown, president/CEO	$359,697,771	75.6%	2,921	81.0%	117	192.5%	68	14	0	10	7	1	0
10	Hilb, Rogal & Hamilton Co. 4951 Lake Brook Drive, Suite 500, Glen Allen, Va. 23060 804-747-6500 Fax: 804-747-6046 *www.hrh.com*	Andrew L. Rogal, chairman/CEO	$327,558,834	25.9%	2,600	23.8%	84	10.5%	77.7	1.5	0.7	12.8	6.5	0	0.8

1 British pound=$1.4396 (2001) fiscal year ending 12/31. 2 Does not include Wells Fargo & Co. subsidiary Wells Fargo Insurance Inc. 3 British pound=$1.432 (2001) fiscal year ending 3/31. 4 South African rand=$0.1365 (2001) fiscal year ending 3/31.
Source: *BI* survey

The full 2002 Directory of Agents & Brokers is available online in the directories area of *www.businessinsurance.com*. The searchable directory allows users to locate brokers by company name, headquarters location and amount of brokerage revenue, among other items. The online database is free to subscribers of *Business Insurance*. PDF copies of the directory also can be purchased online.

CB 07-22-02 A 14 7/18/02 1:35 PM Page 1

Compensation: Hard market brings changes

Continued from page 10

pressure on the issue of risk. The issue is: What's the overall cost of risk? How do we manage that? How do we reduce that?" and then make a fair resolution of what the broker's services are worth, said Andrew Rogal, chairman of Glen Allen, Va.-based Hilb, Rogal & Hamilton Co.

"It's a very tough environment out there," he said.

"The hard market has demanded a lot more expertise and resources of the brokers—at the same time that many of them are on a fixed annual fee," said Richard Betterley, president of Betterley Risk Consultants in Sterling, Mass. "What I'm seeing is that those fees are inadequate for the expertise and time required of a market like this."

The change in market conditions has led risk managers to continue switching to fees from commissions as a means of compensating brokers.

Although Domino's Pizza L.L.C.'s casualty program has been on a fee basis for years, "we have a different broker for our property program that was on a commission basis until this year," said Bob Boik, national director-risk management for the Ann Arbor, Mich.-based pizza company. "Our premium increased significantly this year so, as a result, we negotiated a fee for service to help control our cost," he said.

John Harney, chief operating officer of Near North Insurance Brokerage Inc. in Chicago, said that he has seen "some accounts that had traditionally been on commission have requested a switch to a fee basis" because of market conditions. "Risk managers are trying to avoid broker incomes increasing at the same rate as the premium increases," he said.

But some risk managers say they are willing to reward brokers for the extra work.

"I use a large broker that's worked on our account for four years. I believe their fee is very reasonable considering the amount of work I know it takes to market and place our account, not to mention maintenance work. However, this past renewal they did ask for an increase and I also took the position that we are all in the hard market together," said Ellen Vinck, vp-risk management and benefits of U.S. Marine Repair Inc. in San Diego. She said she agreed to a 20% increase because she believed it was both fair and deserved.

"My clients tend to be pretty open-minded when it comes to professional relationships and tend not to take the hard line and say, 'We agreed on a fee, now live with it,' " said Mr. Betterley. "Having said that, some of the clients, while open-minded, are saying, 'Let's talk about it in preparation for next year, can't give you more this year,' " he said.

"Obviously, the brokers are finding themselves in a situation where they're spending more time on renewals and marketing than they had to before," said Joe Racansky, director of risk management for Cytec Industries Inc. in West Paterson, N.J. He said the same was true of risk managers as they gather data for insurers, who are spending more time and effort in underwriting risks.

"It's more time consuming. In terms of compensation, that kind of depends on where you're coming from prior years. Most of us have gone to fee-based structures, which are not tied to premium. You've got to look at what's fair—were they overpaid in the past? That's another question," he said.

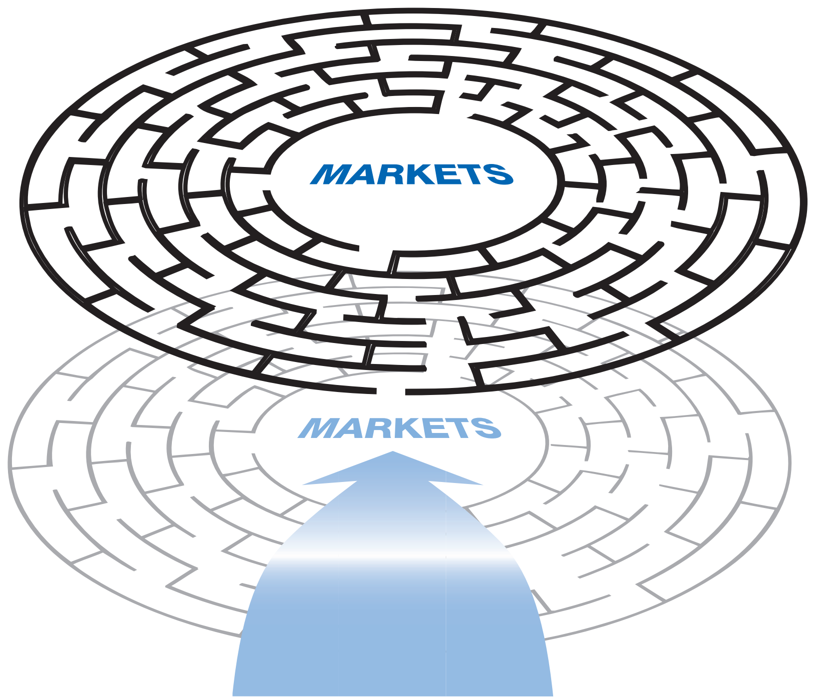
"If we have trouble agreeing on a fee with the broker, I ask the broker to submit a statement of services rendered, including time required from the account executive, account managers, customer service representatives, claim representatives and accounting clerks. We base the next year's fee on last year's costs of handling the account," said Bill Witt, director-corporate insurance programs for Fremont General Corp. in Santa Monica, Calif.

"It's not a perfect system. I would prefer to err on overcompensating the producer. It is not our objective to grind the producer to the point where our account becomes marginally profitable to the broker. We expect—and receive—excellent service from our brokers. Our account is profitable to our brokers. They are anxious to retain our business. That would seem to be the acid test for any broker compensation formula," said Mr. Witt.

"When you're fair over the years, it all just evens out," said Domino's Mr. Boik.

10 Years 1992-2002
Proudly celebrating 10 years of service to our valued agents and trusted markets.

If accessing and maximizing
the right markets is the ***challenge...***



We are the ***solution***

Heath Insurance Brokers is a national specialty lines broker experienced in engineering solutions for your most difficult insurance challenges.

Give us a ***challenge,***
we'll give you the ***solution.***

Heath Insurance Brokers
...engineering insurance solutions SM

Atlanta, GA 770.434.3666	***Dallas, TX*** 214.528.3999	***Hartford, CT*** 860.678.8870	***San Francisco, CA*** 415.693.5890	***Vero Beach, FL*** 772.231.9191
Chicago, IL 312.986.0404	***Fresno, CA*** 559.448.1100	***Houston, TX*** 713.464.8702	***Solvang, CA*** 805.693.8686	***Woodland Hills, CA*** 818.710.3630

www.hibi.com

100 largest brokers of U.S. business

Ranked by U.S. brokerage revenues, which are based on the percentage of 2001 brokerage revenues generated by U.S.-based clients.*

2001 rank	2000 rank	Broker	2001 revenues	% change
1	1	Marsh & McLennan Cos. Inc.	$4,314,080,000	5.7
2	2	Aon Corp.	3,078,350,000	11.0
3	4	Arthur J. Gallagher & Co.	803,182,080	23.2
4	3	Willis Group Holdings Ltd. [1]	754,137,339	9.1
5	5‡	Acordia Inc.	480,556,000	17.7
6	8	Brown & Brown Inc.	359,697,771	75.6
7	7	Hilb, Rogal & Hamilton Co.	325,265,922	25.6
8	6	USI Insurance Services Corp.	313,375,000	-12.9
9	9	Lockton Cos. Inc. [2]	246,342,600	30.7
10	10	BB&T Insurance Services Inc.	219,362,000	23.3
11	5‡	Wells Fargo Insurance Inc.	155,983,000	-3.5
12	11	Jardine Lloyd Thompson Group P.L.C. [1]	147,933,296	-3.0
13	12	CBIZ Benefits & Insurance Services	124,845,000	-6.7
14	14	Palmer & Cay Inc. - An Assurex Global Partner [3]	108,835,833	10.1
15	13	Near North Insurance Brokerage Inc.	107,121,791	7.1
16	19	McGriff, Seibels & Williams Inc. -An Assurex Global Partner	103,410,000	30.4
17	16	ABD Insurance & Financial Services [4]	100,107,000	16.0
18	17	Hobbs Group L.L.C.	94,248,000	9.3
19	18	HLF Insurance Holdings Ltd. [1,5]	87,639,173	8.5
20	20	Talbot Financial Corp. -A RiskProNet Partner	82,800,000	5.5
21	21	Meadowbrook Insurance Group Inc.	80,433,095	2.8
22	51	Hub International Ltd.	78,974,670	241.2
23	–	Fifth Third Insurance	73,062,098	61.9
24	15	Brokerage Concepts Inc. [6]	72,324,000	-20.0
25	26	Frank Crystal & Co. Inc.	71,463,000	15.1
26	25	John L. Wortham & Son L.L.P. -An Assurex Global Partner	70,591,000	13.5
27	23	Keenan & Associates	70,337,120	9.4
28	27	Summit Global Partners Inc. [5]	70,325,143	18.9
29	22	The NIA Group L.L.C. -An Assurex Global Partner	68,288,220	2.8
30	24	Commerce National Insurance Services Inc.	64,384,000	2.6
31	28	Fleet Insurance Services L.L.C.	60,528,732	9.1
32	36	Bollinger Inc.	53,638,365	37.1
33	35	Guaranty Insurance Managers Inc.	52,116,719	29.7
34	33	J. Smith Lanier & Co. -A RiskProNet Partner	50,020,000	21.1
35	32	Holmes, Murphy & Associates Inc. [3]	49,607,757	16.1
36	34	The Leavitt Group	49,212,900	21.1
37	38	Hylant Group	47,783,330	31.3
38	–	Alliant Resources Group Inc.	46,081,878	NA
39	61	Citizens/Clair Odell-Brewer Lord	45,000,000	95.8
40	40	Allied North America [7]	39,100,000	10.5
41	42	The IMA Financial Group Inc. -An Assurex Global Partner	39,076,251	16.3
42	37	Banknorth Insurance Group	38,746,173	1.2
43	39	Frenkel & Co. Inc. - An Assurex Global Partner	37,600,454	4.9
44	41	Synaxis Group Inc.	36,400,000	6.7
45	43	Marshall & Sterling Enterprises Inc.	33,226,785	0.7
46	47	The Graham Co.	33,014,700	19.2
47	45	Mesirow Insurance Services Inc. -A RiskProNet Partner [5]	32,694,935	10.7
48	48	Rebsamen Insurance Inc. -A RiskProNet Partner	32,379,398	17.6
49	58	Woodruff-Sawyer & Co. -An Assurex Global Partner	32,205,000	35.7
50	49	Van Gilder Insurance Corp. -An Assurex Global Partner	32,097,780	21.0
51	46	Calco Insurance Brokers & Agents Inc.	31,260,348	7.9
52	69	The Hays Group Inc.	30,800,000	51.0
53	44	CalSurance Associates Inc.	30,398,000	2.5
54	83	InterWest Insurance Services Inc.	28,989,388	53.8
55	71	Heffernan Insurance Brokers	28,795,420	41.5
56	77	Hibernia Insurance Agency L.L.C.	28,414,120	42.8
57	55	Cottingham & Butler Inc. -An Assurex Global Partner	27,440,000	12.7
58	53	Cameron M. Harris & Co. -An Assurex Global Partner	27,364,259	10.8
59	50	Tanenbaum-Harber Co. Inc.	27,225,000	5.9
60	80	SullivanCurtisMonroe Insurance Brokers	27,091,969	40.7
61	57	The Loomis Co.	26,893,258	11.4
62	–	Roger Bouchard Insurance	26,564,651	107.4
63	56	Van Beurden Insurance Services Inc.	26,500,190	9.8
64	52	The Treiber Insurance Group	25,799,044	3.8
65	54	Horton Insurance Agency Inc.	25,344,760	3.0
66	60	Andreini & Co.	25,095,200	8.6
67	81	William Gallagher Associates Insurance Brokers Inc.	24,967,800	30.0
68	66	Barney & Barney L.L.C. -An Assurex Global Partner [4]	24,764,000	19.3
69	74	The Rutherfoord Cos. -An Assurex Global Partner [3]	24,538,728	22.6
70	62	Allied American Insurance Agency Inc.	24,315,750	6.6
71	67	The James B. Oswald Co. -An Assurex Global Partner	23,797,000	14.9
72	63	Saldana & Associates Inc.	23,525,323	5.3
73	96	Capacity Group of Cos.	22,835,380	44.0
74	70	BWD Group L.L.C.	22,306,760	9.5
75	–	Neace Lukens - An Assurex Global Partner	22,115,166	19.0
76	75	Bratrud Middleton Insurance Brokers Inc.	21,780,000	10.0
77	90	Frank F. Haack & Associates Inc. -An Assurex Global Partner	21,550,000	30.7
78	97	Insurance Office of America Inc.	21,516,743	37.5
79	76	The Daniel & Henry Co. -An Assurex Global Partner	21,469,000	7.4
80	86	Bowen, Miclette & Britt Inc.	21,115,000	21.9
81	65	R.C. Knox & Co. Inc.	20,990,000	0.2
82	–	Brooke Corp.	20,859,232	51.7
83	72	Riggs, Counselman, Michaels & Downes Inc. -An Assurex Global Partner	20,758,000	3.5
84	98	McQueary Henry Bowles Troy L.L.P.	20,527,500	30.9
85	73	Dodge, Warren & Peters Insurance Services Inc. [8]	20,188,000	0.7
86	88	Seitlin - An Assurex Global Partner	20,097,000	19.5
87	84	Lawley Service Inc.	19,784,302	5.2
88	93	Stewart Sneed Hewes/BancorpSouth Insurance	18,762,625	16.5
89	87	Anco Insurance Managers Inc.	18,698,835	10.3
90	91	Fringe Benefits Management Co.	18,648,934	14.0
91	–	The Mahoney Group -An Assurex Global Partner	18,370,019	28.6
92	95	Parker, Smith & Feek Inc. -An Assurex Global Partner	18,045,720	13.0
93	89	SilverStone Group Inc.	17,173,000	2.5
94	–	The Cambridge Group -A RiskProNet Partner [9]	17,043,000	31.7
95	–	Tanner Insurance Brokers Inc. -A RiskProNet Partner	16,954,000	32.1
96	100	Lovitt & Touché Inc.	16,844,397	14.0
97	99	Fred A Moreton & Co.	16,659,900	7.3
98	–	Higginbotham & Associates Inc.	16,387,967	32.0
99	–	Dawson Insurance Inc.	16,362,448	15.5
100	–	Hibbs-Hallmark & Co.	16,273,590	10.8

* Companies that derive less than 20% of revenues from commercial retail brokerage are not ranked. ‡ 2000 rank reflects combined Acordia/Wells Fargo figures. 1 Converted at applicable rates; 2 Fiscal year ending 4/30; 3 Fiscal year ending 6/30; 4 Fiscal year ending 1/31; 5 Fiscal year ending 3/31; 6 Fiscal year ending 7/31; 7 Fiscal year ending 11/30; 8 Fiscal year ending 10/31; 9 Fiscal year ending 9/30

Source: *BI* survey

The full 2002 Directory of Agents & Brokers is available online in the Directories area of *www.businessinsurance.com*. The searchable directory allows users to locate brokers by company name, headquarters location and amount of brokerage revenues, among other items. The online database is free to subscribers of *Business Insurance*. PDF copies of the directory can also be purchased online.

CB 07-22-02 A 18 7/18/02 3:10 PM Page 1

Is less more? To use or not use multiple brokers

By MICHAEL BRADFORD

Risk managers considering whether to use more than one broker won't find any hard and fast rules to help them decide.

Some buyers that think they need expertise in a number of areas may like to court more than one broker. Others prefer to keep things simple and build long-term relationships with lone firms that will remain loyal and familiar with the intricacies of their accounts.

And despite today's challenging hard market, some risk managers point to the advantages of using one broker for major risks and using others for smaller ones.

The ultimate decision to use more than one broker can depend partly on the size of the account, experts say.

"I think, from our perspective, a lot has to do with the size and complexity of the account," said Bill Bohstedt, the president of the risk management division at Itasca, Ill.-based Arthur J. Gallagher & Co. Clients in the "upper middle market" generally use Gallagher as their sole broker, he said, while it is more common for Fortune 1000 companies to use more than one.

Mr. Bohstedt explained that, with some large accounts, a risk manager may choose a broker that has an expertise in directors and officers liability insurance to place that coverage, while going with a broker that is known for handling other casualty lines or property coverages to find markets for those exposures.

With smaller companies, "it may be cleaner and neater to have one broker handle everything," Mr. Bohstedt said. "We certainly like and prefer that" with those companies, he said.

Joe Williams, the chairman and chief executive officer of Houston-based broker Wisenberg Insurance & Risk Management, said that "most of our clients are middle-market clients, and we strongly encourage them to use only one broker."

"Particularly in this marketplace," he said, "it's so difficult to get multiple carriers to even quote on the same risk. If you fragment the market with multiple agents, it makes it tough to get any quote."

'Particularly in this marketplace, it's so difficult to get multiple carriers to even quote on the same risk. If you fragment the market with multiple agents, it makes it tough to get any quote.'

Joe Williams
Wisenberg Insurance & Risk Management

Mr. Williams noted, for example, that the market for property coverage for apartments is so limited "that we need to access all the worldwide markets to put it together." If several brokers were trying to access those markets for the same account, he said, "nobody would be able to put together a whole program."

Mr. Williams said that the problem is the same for the petrochemical industry. "There just aren't that many players, and I need access to them all to fill out a line of several hundred million dollars," he said. "If you have any account with substantial property values, you really need access to all the markets."

Mr. Williams explained that such restrictions didn't exist a few years ago. Until the market hardened, a middle-market account could approach several brokers and likely get quotes back from each, he said. This is because insurers were hungry and competitive. "In the middle market, if the client was of the mind-set to get multiple brokers, it was doable several years ago," he said. "Today it's much, much different."

Risk managers who stick with one broker say they enjoy the benefits of long-term relationships.

"We use one brokerage firm," said Lance Ewing, senior director-risk management at GES Exposition Services in Las Vegas. "It's that old adage: If you find a really good one, stay with it as long as it remains a really good one."

Mr. Ewing acknowledged that GES has, on occasion, sought help from other brokers, but he said he prefers to stick with just one for the long term. "You build that relationship and trust and integrity" by keeping the arrangement in place, he said, and that keeps at bay the others who court the account.

Wade Latham, vp of risk management at Gevity HR Inc., a DeLand, Fla.-based employee leasing company, said he also has traditionally used just one broker.

Marsh Inc. has been the compa-

See MULTIPLE BROKERS/page 20

Brokers: Dealing with the changes after Sept. 11

Continued from page 10

on families and co-workers—have been the toughest to deal with, Mr. Sinnott said. But Sept. 11 also had a financial impact on the brokers.

Marsh recorded a pretax charge of $187 million at the end of last year, comprising $69 million for benefits and counseling services to victims' families and employees; $57 million for various asset impairments and disruption of operations; and $61 million related to the layoff of 750 employees in Marsh consulting units as a result of weakened market conditions following Sept. 11.

Aon recorded a pretax charge of $68 million, including $45 million in insurance benefits paid by Aon's Combined Insurance Co. of America unit. The Combined payout is net of $147 million of reinsurance recoveries, and London market reinsurers are disputing liability on about $90 million of losses attributable to a Combined business travel accident policy covering Aon employees. The two sides are now litigating the dispute.

Sept. 11 has also boosted most brokers' workload. In the immediate aftermath of the attacks, this work included handling the surge of property, business interruption, workers compensation, general liability and other claims. Since then, it has also included helping clients deal with a dramatically tighter property/casualty market.

For some clients, the situation has been particularly difficult: Commercial markets for airline war risk liability coverage, for example, virtually disappeared after Sept. 11, and Marsh responded by helping the Airline Transport Assn. develop a Vermont-based risk retention group to take over the coverage.

All brokers have had to put extra effort into helping clients structure and negotiate placements in an insurance market that has been cutting available capacity, imposing new restrictions on coverage and sharply increasing rates.

Some brokers are also emphasizing the clout they can exercise in a tough market.

"We think we can advocate for the client and negotiate as effectively as anybody in this difficult environment," said Roger E. Egan, president and chief executive officer of Marsh's North American operations.

The hard market has also focused many brokers' minds on their core activities, pushing out—for now—thoughts of expanding into new businesses.

"We're pretty much sticking to our knitting at this point, which, believe me, in today's market, leaves us with more than we like to deal with," said Charles Ruoff, senior vp and chief marketing officer for Acordia. "We're pretty occupied right now."

One of the areas most brokers continue to zero in on is middle-market and small commercial business, where they regard prospects for new business growth as most attractive. The push for middle-market accounts extends from regional brokers to the largest of the megabrokers.

Hilb, Rogal & Hamilton Co., for instance, is targeting the top tier of the middle market, which HRH Chairman and CEO Andrew Rogal describes as "underserviced and underoptioned."

Middle-market accounts are "where the money is," observed J. Hyatt Brown, president and CEO of Daytona, Fla.-based Brown & Brown Inc.

And even Marsh, which boasts a who's who of Fortune 500 clients, sees the small and middle markets as key sources of future growth, both because of those markets' collective size and because of the sheer number of accounts divided among legions of brokers, Mr. Sinnott said.

The intensifying interest in middle-market business is sparking fierce competition for clients, brokers report.

All brokers have been putting extra effort into helping clients negotiate placements in an insurance market that has been cutting capacity, imposing new restrictions and sharply increasing rates.

Competition for accounts is driving highly motivated brokers to "new levels" of production and client service, suggested Mr. Brown, who said Brown & Brown is fostering a "hunt if you want to eat" corporate culture.

The push for revenue growth also continues to fuel intense acquisition activity among the smaller top-10 brokers, years after a merger wave among their larger rivals quieted.

Arthur J. Gallagher & Co. bought up 16 smaller brokers and agencies last year after acquiring 15 the year before. Seven more deals followed in the first half of 2002.

HRH merged with Hobbs Group, the 17th-largest broker of U.S. business, based on 2000 revenues, and carried out a series of smaller takeovers during a 2001 acquisition drive.

Brown & Brown last year took over two dozen agencies, along with several more agency books of business, bringing the total of its acquisitions since 1993 to 86.

The tightening market, rising demand for brokerage services and continuing mergers and acquisitions have contributed to a trend brokers love to see—rising revenues.

Most brokers—from Marsh, Willis Group Holdings Ltd. and Gallagher to Alexander Forbes Ltd. and Jardine Lloyd Thompson Group P.L.C.—report sizable improvement in their "organic" growth on the strength of rate increases and new business production.

While some, like Marsh, weren't particularly busy acquiring smaller competitors last year, those that were posted even bigger revenue gains. Brown & Brown, for example, saw its revenues shoot up 75.6% in 2001, to $359.7 million. HRH's jumped 25.9%, to $327.6 million, while Acordia posted a 17.7% gain, to $480.6 million.

Revenue growth isn't showing signs of slowing this year, either. The pace of acquisitions by some of the smaller top-10 brokers continues unabated, with numerous deals closed since the beginning of this year.

"The pipeline continues to be as full as it's ever been," Mr. Brown said.

With faster internal growth and continuing acquisitions, most of the top-10 brokers expanded their staffs last year. The biggest staff growth, not surprisingly, was at brokers such as Brown & Brown and HRH, which were actively acquiring other companies. But Marsh also increased hiring in its brokerage operation, more than offsetting staff cutbacks in its consulting units.

Given their improving prospects, the handful of large brokers still in private hands have gone—or are planning to go—to equity markets to raise capital.

Willis, formerly owned by Kohlberg Kravis Roberts & Co. and other investors, went public last year and has completed two secondary stock offerings since.

London-based HLF Insurance Holdings Ltd.—created in the 1999 merger of Lambert Fenchurch and Heath Group—has likewise announced plans for a public offering to be completed by the end of this summer.

HLF's offering is coming sooner than anticipated because "both the implementation of the merger and the resulting growth in profits have exceeded expectations," said William Wilks, HLF development director and board member.

Business Insurance® • SERVICES •
www.businessinsurance.com

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint on their own, material appearing in the newsmagazine. For information, call or fax:

312/ 649-5319

Fax: 312/ 280-3174

SINGLE-COPY SALES

To order any current or back issue of *Business Insurance*, call the single-copy sales division of *BI's* Circulation Department:

1-888-446-1422

CB 07-22-02 A 20 7/18/02 1:36 PM Page 1

Multiple brokers: Deciding when less is more

Continued from page 18

ny's broker for many years, and it "has provided the service we wanted," Mr. Latham said. "Why mess with success?"

Mr. Latham said using a single broker "offers the ability to have one person or a small group who understands all the aspects of our program and how things interact."

Having more than one broker could, in fact, make things confusing, Mr. Latham said. One broker, for example, could assume a particular coverage wasn't needed because the other was picking it up, leaving the exposure uninsured. It makes for greater accountability to have a single broker handle all the coverages, he said.

A complex insurance arrangement at Gevity makes it crucial that one broker be on top of all the exposures, Mr. Latham explained. The professional employer organization has 900 employees of its own and provides workers compensation insurance for 100,000 of its clients' workers.

Gevity not only has to worry about its clients' workers compensation exposure but also its own insurance needs, Mr. Latham said. "There are complexities there, and we have to be careful," he said. "With a single broker, they understand these differences."

Mr. Latham said that, even without such unusual circumstances, "my personal preference would be to use a single broker. I would have to be convinced that the multiple-brokerage arrangement was right."

Gevity uses "the same philosophy with our brokers that we do with our carriers," he said. "We ride out mistakes and changes in personnel with them, and they do the same with us."

Mr. Ewing of GES said that relationship issues are part of the single-broker arrangement. "It's a two-way street," he said. "We know what buttons to push to get what we need, especially in the hard market. And the brokers know what buttons to push on our end as risk managers."

Other risk managers, though, like to take advantage of the services offered by more than one broker.

Daniel H. Kugler, director of corporate risk management at Snap-on Inc. in Pleasant Prairie, Wis., has coverage placed by both Aon Corp. and Marsh. Some coverage is written directly by Wausau Insurance Cos.

"One of the things that everybody talks about is you get a little more of the competitive juices" flowing when more than one broker is on the account, Mr. Kugler said. "It's not this one big global account. I can kind of see that."

Mr. Kugler said he especially appreciates the time multiple brokers spend talking with him about his account and his coverage and loss control concerns.

"I want a stable of brokers with the hard market," because one broker may not have access to all the markets that are needed to fill out a program, he said. "The bottom line is, you want an ongoing relationship that will expose you to more than one broker's point of view. When the market was soft, that was not as big of a concern."

More than one broker means "more expertise," Mr. Kugler said. "You are trying to get their intellectual power, their knowledge of the markets that others might not have."

Mr. Kugler acknowledged, though, that the size of an account is going to play into whether more than one broker is interested. "Are you generating enough income for them to have an interest in you?" he asked.

Some risk managers find it possible to have it both ways—a single broker on one set of risks and multiple brokers on the rest.

"We do both," said Lauren M. Gregory, director of risk and insurance management at the Metropolitan Transportation Authority in New York. A "master broker" handles the procurement of major risk financing and insurance programs for MTA capital projects. A network of other brokers places "smaller policies," such as boiler and machinery and small nontransportation risks, she explained.

Using a single broker on the major risks is easier, according to Ms. Gregory. It means dealing with one intermediary from the beginning of a project to the end. "The broker is there to help us from the conceptual stage through to the placing of the coverage. We even require that they provide us with consulting hours" over the length of their contract, she said.

"If we had many different brokers, there would be too many people running around doing consulting," Ms. Gregory said.

Elizabeth Francey Demaret, vp-international risk management at Arthur J. Gallagher in Itasca, said that risk managers who choose more than one broker have to ensure there is a "clear division of labor" once the selection process has been completed. "It is in no one's interest" if brokers are still competing for portions of the account after they are on board, Ms. Demaret said.

Gallagher's Mr. Bohstedt warned that, regardless of whether a company uses one broker or several, choosing well is crucial. "With the state of the marketplace being so restrictive, with capacity shrinking and fewer players available, risk managers need to be careful who they send into the marketplace," he said.

Expert Vision. Applied to Today's Risks.

There are the risks you know. There are the risks you never imagined. And there are risks that are looming on the horizon that don't affect your business. Yet.

You need someone who can help you identify risks—and help you manage them. You need Acordia. We combine the resources of one of the world's largest brokerage firms with a hands-on local approach to working with you. So you get the best service and the right coverages for every risk you face.

Let's talk about how much our expert vision can mean to you. Call Charles L. Ruoff at (312) 423-2500.

America's Local Insurance Broker

A Wells Fargo Company And Member Of The HLA global Network [www.acordia.com]

Who helps you leap those gaps between risk and success? Aquila. [ah-KWIL-uh]. Changing regulations. Evolving business models. Price volatility. No wonder you're facing more risks. That's where you need Aquila. We transform your risk into opportunity. We partner with you to assess your risks and create exceptional solutions for your business. We combine and leverage our experience as a leading wholesale merchant with our assets, risk management expertise and capital solutions. It's your basic giant leap forward. 1-800-891-3687. **aquila.com**.

CREATING CERTAINTY℠

CB 07-22-02 A 22 7/18/02 1:36 PM Page 1

P/C brokers expanding their benefits business

By JOANNE WOJCIK

Although the soft market may have whet property/casualty brokers' appetite for selling employee benefits, the hard market has them hungry for more.

Although many small and midsize brokers entered the benefits market initially to help bolster revenues during lean times, now that they've honed their expertise, they see significant growth potential, both in attracting new business and in cross-selling to their existing property/casualty clients.

And even those brokers that had been selling benefit programs for decades are finding the proportion of their revenues derived from benefits climbing significantly as health care premiums grow at double-digit percentage rates.

"By having both disciplines, it provides balance and stability when one of the other divisions is having a tough industry cycle," said Debora Karstetter, executive vp at ABD Insurance & Financial Services in Redwood City, Calif.

"Right now, 42% of our corporate revenues are attributed to employee benefits, and we've had 32% compounded growth in the last five years," she said. "We're up about 240% in the last five years."

The Daniel Agency in Pawling, N.Y., took advantage of a fragmented benefits brokerage sector in its region of the country and grew its benefits business nearly 500% in the last six years, said Martin Brayboy, vp of the agency's benefits division.

Benefits now account for more than 35% of the agency's total revenues, up from just 10% in the mid-1990s, Mr. Brayboy said. The agency began selling benefits in the late 1980s.

BB&T Insurance Services Inc. in Raleigh, N.C., also is growing its benefits business. "We realized that we needed to diversify, change the scope of our operation and expand into the employee benefits arena," said President Wade Reece. BB&T began brokering group benefits in the mid-1990s.

Although BB&T initially grew its benefits business organically, taking advantage of referrals from banking parent BB&T Corp. and by cross-selling to its property/casualty clients, it also made about a dozen acquisitions of benefit agencies, especially in regions where it had a strong property/casualty presence but no benefits operation, he said. Benefits now account for about 17% of BB&T's total revenues, he said.

Hilb, Rogal & Hamilton Co. has offered benefits since the broker's inception, but until recently "we kind of dabbled in it," said Frank Shadid, president of the Oklahoma office and regional employee benefits director for Glen Allen, Va.-based HRH.

With an increased emphasis on cross-selling, attracting new business and acquisitions—HRH's most recent being Benefits Concepts of Dallas—the broker has grown that business in the last five years from just 6% of total revenues to 18%. And because HRH also grew dramatically overall during that time, "that 18% is of a much bigger number," Mr. Shadid said.

More than half of HRH's clients now use the broker for both property/casualty insurance and benefits.

'By having both (property/casualty and benefits), it provides balance and stability when one of the other divisions is having a tough industry cycle.'

Debora Karstetter
ABD Insurance & Financial Services

"Ninety-nine percent of our benefits revenue is cross-sold," said Scott Stream, vp of insurance operations at The Daniel & Henry Co. in St. Louis. "It's been a great avenue for us. If you've got a good relationship with a property/casualty client, how about asking the question, 'Who's doing your group? Can we help you? Is there something we can work with you on?' So it's been a natural entree to employee benefits."

Daniel & Henry will derive about 19% of its 2002 revenues from employee benefits, up from about 10% seven years ago, and Mr. Stream predicts further growth because just 15% of Daniel & Henry's clients use the broker for both property/casualty and benefits.

For 30 years, Riggs, Counselman, Michaels & Downs' benefits business had been generated by cross-selling to its property/casualty clients, but that changed when the property/casualty market softened, said Bob Cawley, senior vp of business development in Baltimore.

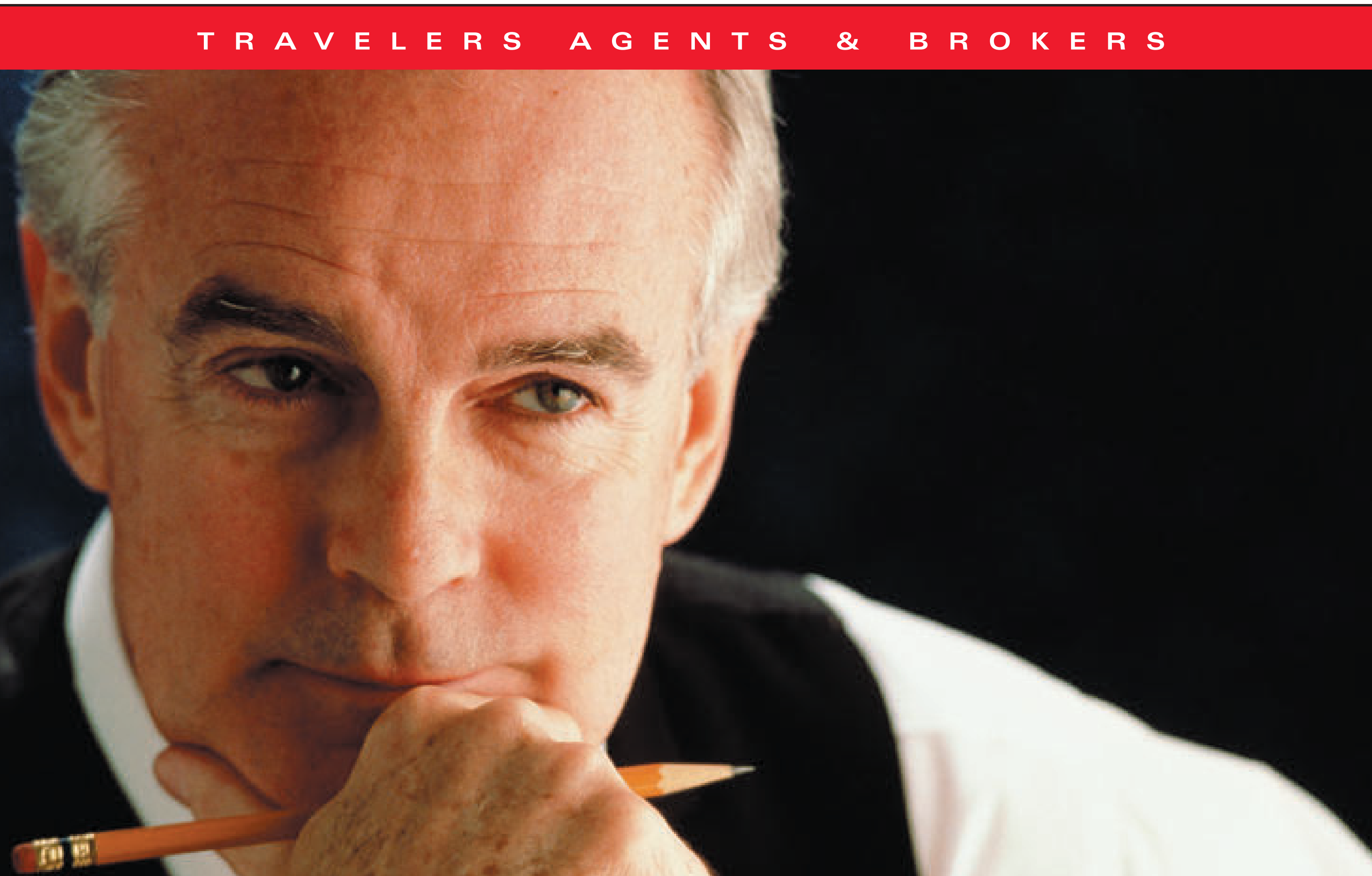
"In the last five to seven years, it's been primarily driven by the department's own needs for new clients," he said.

As a result of the combined emphasis on cross-selling and seeking new business, today about 30% of Riggs, Counselman's clients are benefits-only, and perhaps 35% use the broker for benefits and property/casualty, Mr. Cawley estimated. About 35% of the broker's total revenues come from employee benefits, he said.

"Our objective is to grow it at roughly 20% a year without acquisitions. We're probably growing right

See BENEFITS/page 24

TRAVELERS AGENTS & BROKERS



STRENGTH

Independent agents and brokers need a partner with the financial strength to overcome obstacles in the marketplace. Whether it's a strong balance sheet, a solid underwriting foundation or a large national presence, Travelers has what it takes to remain strong in tough times.

LEADERSHIP

At Travelers, our best leaders are with you, in the field. Our field leadership is empowered to develop and execute our strategic vision, and is supported by one of the finest senior management teams in our industry. Working together we've maintained a leadership position in operating performance, year after year. What's more, Travelers is a leader in developing technologies that free agencies from routine administrative tasks, enabling more focus on sales.

CONSISTENCY

At Travelers, we pride ourselves on our long-term commitment to the local independent agent. Our success is tied to your success, and that's why we've remained consistent in both our underwriting appetite and our market presence. We will continue to focus on our core property and casualty insurance products and services, as we have for over 138 years.

Strengthen your relationship with Travelers and help secure a more profitable future for your agency.

www.travelersagents.com

The Travelers Indemnity Company and its affiliates, One Tower Square, Hartford, CT 06183

PI 07-22-02 A 24 7/18/02 5:24 PM Page 1

TOP U.S. BENEFITS SPECIALISTS

Brokers deriving a majority of 2001 gross revenues from benefits business

Company	Revenues from benefits*	% of total gross revenues
CBIZ Benefits & Insurance Services	$88,305,000	58.0%
Brokerage Concepts Inc.	54,612,000	74.0
Fringe Benefits Management Co.	18,648,934	100.0
Cottingham & Butler Inc. -An Assurex Global Partner	16,240,000	58.0
Frank F. Haack & Associates Inc. -An Assurex Global Partner	14,080,000	64.0
Black, Gould & Associates Inc.	13,781,343	100.0
SilverStone Group Inc.	11,108,480	64.0
CFG Insurance Services Inc. -A RiskProNet Partner	9,563,868	67.8
Thesco Benefits L.L.C.	7,992,628	100.0
Fox-Everett Inc. -An Assurex Global Partner	6,913,966	54.3

* Includes commissions and fees from brokering group benefits coverage, benefits consulting and health care administration.

Benefits: P/C houses expand

Continued from page 22

now just shy of that, maybe 18% a year," he said.

Although Savannah, Ga.-based Palmer & Cay has been offering benefits brokerage services to its property/casualty clients since 1955, it didn't really emphasize them until recently, after it acquired the benefits operations of KPMG in Atlanta, Washington and Baltimore, said President John Cay.

"It was through those acquisitions we began making a very significant move into the benefits business," he said.

Palmer & Cay derives about 40% of brokerage revenues from employee benefits, up from 10% to 15% in the early years, Mr. Cay said.

To get a leg up on their competition, many brokers are offering benefit clients online technology, benefit consulting and human resources outsourcing services similar to that provided by the large benefit consulting houses.

The Daniel & Henry Co., for example, last year began offering its clients ZyWave, an online human resources information and administration program developed by one of its Assurex partners. Currently, 125 of the employers have signed up to use it, Mr. Stream said.

"We provide it as a value-added service for our clients," he said. "It helps differentiate us."

Palmer & Cay provides both employee benefits and human resource consulting services to its employer clients.

"I clearly think that's the way the business is going," he said. "More middle-market companies will be outsourcing those functions."

HRH offers its benefits clients various forms of technology to communicate benefit information to employees, to conduct enrollment online and to provide human resource administration assistance, Mr. Shadid said.

Rather than building their own in-house systems, some brokers prefer acting as the employer's agent and helping them find an appropriate vendor.

"We certainly have elected thus far to not get into the administration business ourselves, as some of brokers have. That's such a specialized area of service. We're trying to carve through the massive choice that's out there and direct our clients toward the employee self-service portal or one that we think works," said David Uppinghouse, senior vp at Van Guilder Insurance Corp. in Denver. "We'll serve as a broker or consultant-adviser in that capacity."

For 2001, Van Guilder derived about 12% of total revenues from benefits, up from 10% the prior year. The goal is to grow the benefits business to 20% to 25% of the broker's total revenues, he said.

In some cases, brokers are finding that supplying benefits to employers also offers access to another potentially lucrative market: employees.

As more employers offer their employees voluntary benefits as a tradeoff for requiring higher health care premium contributions, many brokers are using the opportunity to market personal lines products such as auto, homeowners and long-term care insurance.

"We have an initiative called P&C Select to offer larger employers the opportunity for their employees to purchase automobile and homeowners insurance on a voluntary basis, and we've had some success with that," said Mr. Cay of Palmer & Cay.

As benefit costs become a greater part of company overhead, it is likely that chief financial officers will become more involved in purchasing, which will make it even more likely that brokers will be tapped for both property/casualty insurance and employee benefits, predicted Mr. Cawley of Riggs, Counselman.

"One of the things that I think will change our world greatly is the convergence of rising costs of benefits becoming as much the CFO domain as it is the HR domain, so that at some point you'll start dealing with the same buyer," he said. "From a firm's perspective it's easier to deliver services to the client because you're dealing with consistency of message coming from them."

M&A activity remains strong among brokerages

By JUDY GREENWALD

Consolidation among agents and brokers is expected to continue, fueled by the hard property/casualty market and banks' ongoing interest in the insurance distribution business.

Already-brisk merger and acquisition activity is expected to be particularly strong among large publicly held brokerages—though not among the so-called mega-brokers.

Banks are not only active acquirers of insurance agencies and brokerages, but their considerable financial resources also have driven up the cost of many deals.

The increased M&A activity is expected to ultimately benefit risk managers. Although it would reduce the total number of brokerage firms, the surviving brokerages' greater scale and scope of services might increase risk managers' options.

From 1999 through 2001 there were a total of 584 announced deals to buy an insurance agency or brokerage, according to John M. Wepler, senior vp at Concord, Ohio-based Marsh, Berry & Co. The buyers were 200 brokers, 202 banks, 143 insurance companies and 39 other financial services firms.

M&A activity likely will continue to be robust.

"Our sense is that the activity is going to continue to be brisk over the next year," said Bobby Reagan, president and CEO of Atlanta-based Reagan Consulting Inc. "There are a fair number of strong, motivated buyers, pricing continues to remain strong and with motivated buyers with strong pricing, it will certainly pique the interest of a lot of potential acquisition candidates," he said.

"You have the insurance brokers buying other insurance brokers and either folding them into existing operations or creating a new geographic operation," said David Lewis, an analyst and senior vp at SunTrust Robinson Humphrey in Atlanta.

"Second, you've got the banks that are tying to determine whether this is a business they should be in to provide one-stop financial shopping for their clients and, at the same time, you've got the market hardening on the property/casualty underwriting cycle that's showing some very nice growth for most in the industry. These factors typically would drive consolidation for at least the foreseeable future," he said.

William Schoeffler, a partner with Glen Ellen, Calif.-based Oak & Associates, a consulting firm, said unlike the situation in the 1990s, when many companies bought firms to bolster their volume, today's deals are more strategically driven. "The astute firms are looking to expand their horizon with respect to bringing in more services," such as a property/casualty-oriented brokerage adding employee benefits or financial services, he said. This increases the diversity of their revenue source, he explained.

Market observers expect future deals to be focused among companies in the second-tier of large brokers.

> **'There are a fair number of strong, motivated buyers, pricing continues to remain strong and with motivated buyers with strong pricing, it will certainly pique the interest of a lot of potential acquisition candidates.'**
>
> *Bobby Reagan*
> *Reagan Consulting Inc.*

New York-based Marsh & McLennan Cos. Inc. and Chicago-based Aon Corp. have already "gone through their acquisition stage," said Matthew Coyle, director at rating agency Standard & Poor's Corp. in New York.

Marsh and Aon declined to comment for this story.

But clearly companies like Arthur J. Gallagher & Co., Brown & Brown Inc., Hilb, Rogal & Hamilton Co. and to some extent Willis Group Ltd. "will be active in the acquisition arena," said Mr. Coyle. "It's not uncommon for some of the smaller buyers to make double-digit acquisitions each year," he said.

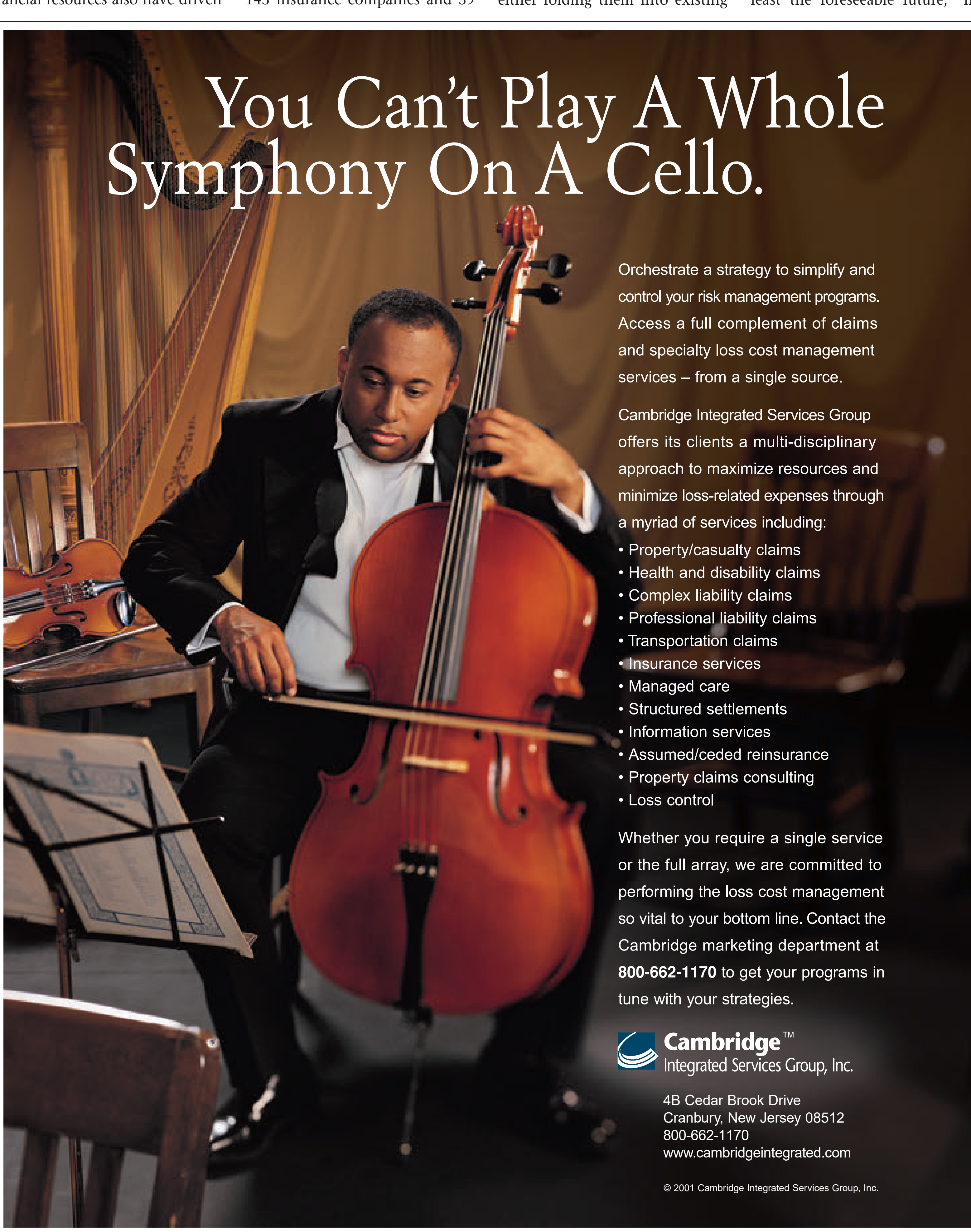
J. Patrick Gallagher Jr., Gallagher's president and chief executive officer, said the Itasca, Ill.-based company has made more than 100 acquisitions since 1986, including six or seven so far this year. "We're very active in that area and we're very interested in continuing that," said Mr. Gallagher.

Corey T. Walker, vp, treasurer and chief financial officer at Brown & Brown in Daytona Beach, Fla., said, "Our approach is no different than it's ever been. We are always looking for the right partners who want to grow an insurance agency with us."

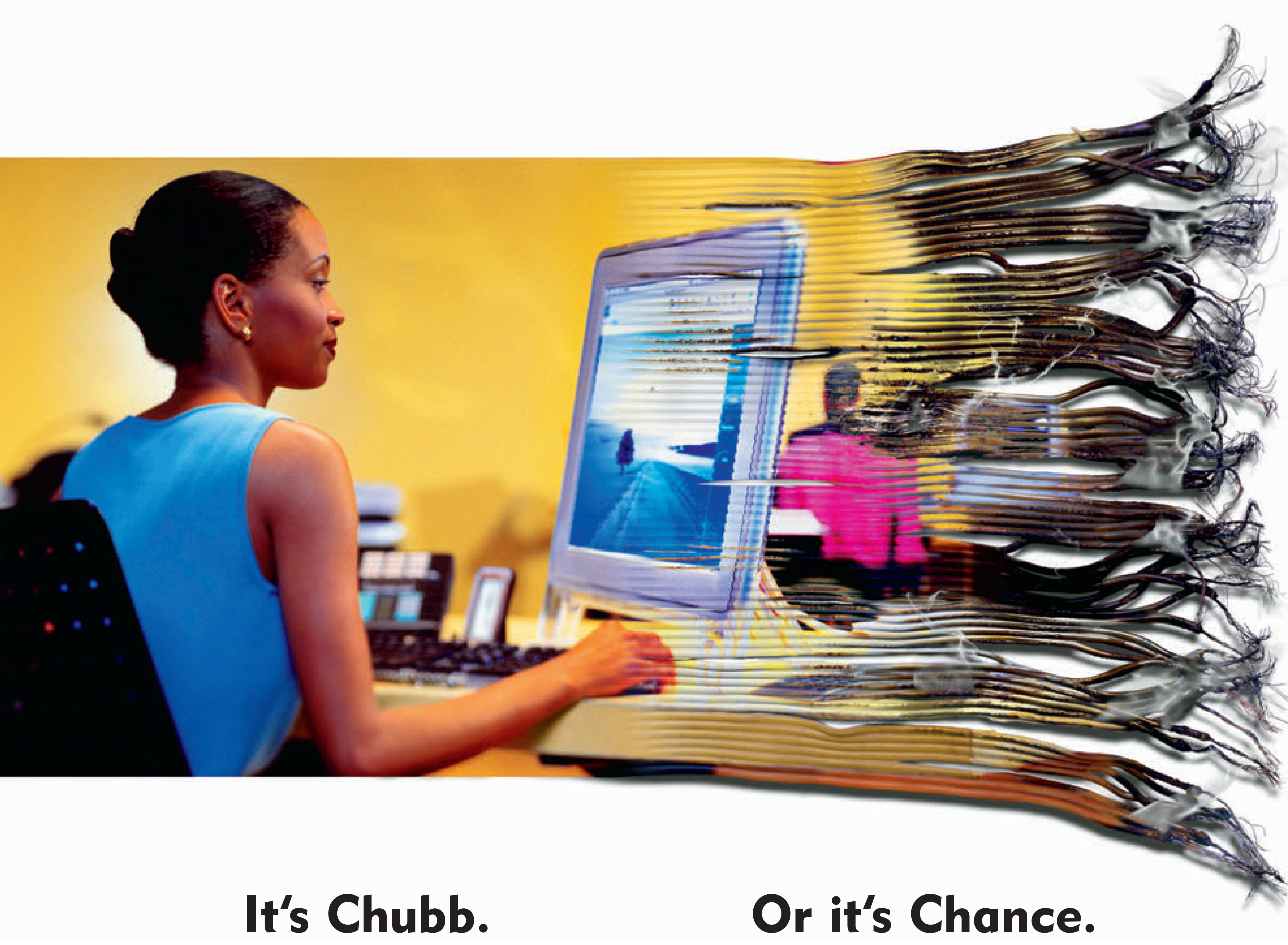
"We should do quite a few" acquisitions over the next year, "only because we have a lot of people that do talk to us," Mr. Walker said. "We have $150 million of cash that we have sitting in the bank to do...the right acquisitions, so we'll do as many as make sense," he added.

Andrew Rogal, chairman of Hilb, Rogal & Hamilton of Glen Allen, Va., which just completed its purchase of Hobbs Group L.L.C., said

See MERGERS/page 30



She was a player in cyberspace. Then the game went haywire.



It's Chubb. Or it's Chance.

Discover Safety'Net℠, state-of-the-art Internet liability coverage. The minute your customers begin disseminating information over the Internet, they create a whole new set of exposures not always covered by traditional liability insurance – like copyright infringement, defamation and invasion of privacy. By suggesting Safety'Net, you prove yourself a smart and valuable ally. Created by Internet and First Amendment attorneys and underwriters, Safety'Net is backed by Chubb, the worldwide company whose claims-handling reputation is the best in the business. That alone should help keep them .calm when they decide to .com.

CHUBB SPECIALTY INSURANCE: EXECUTIVE PROTECTION • FINANCIAL INSTITUTIONS • HEALTH CARE • PROFESSIONAL

CHUBB

Chubb refers to the insurers of the Chubb Group of Insurance Companies. Actual coverage is subject to the language of the policies as issued. Chubb, 82 Hopmeadow St., Simsbury, CT 06070-7683

#1 in M&A...

...and so much more...

SNL Financial, Investment Banker Advisor Rankings

Insurance and Managed Care M&A Deals

(Including Broker / Agency Deals)

Ranked by Number of Deals Firm	'99, '00, '01 Combined # of Deals	2001 # of Deals
Marsh Berry & Co.	**82**	**32**
Credit Suisse First Boston USA	41	7
Goldman Sachs & Co.	38	6
Reagan Consulting Inc.	28	13
Cochran Caronia & Co.	24	8
Morgan Stanley Dean Witter	18	5
Salomon Smith Barney Holdings	18	3
Merrill Lynch & Co.	17	6
JPMorgan	16	2
Bear Stearns & Co.	13	4
Philo Smith & Co.	12	3
Dresdner Kleinwort Wasserstein	10	4
Banc of America Securities LLC	9	5
Lazard Freres & Co.	8	3
Fox-Pitt Kelton Inc.	8	2
Lehman Brothers Inc.	7	2
Keefe Bruyette & Woods Inc.	5	3
UBS Warburg LLC	5	2
Boenning & Scattergood Inc.	4	2
U.S. Bancorp Piper Jaffray Cos.	4	2
First Union Securities Inc.	3	2

Source: SNL Insurance M&A DataSource / Data as of 6/12/2002
Reprinted from the 2000, 2001, and 2002 issues of
Insurance Mergers & Acquisitions Yearbook © 2002 SNL Financial
SNL Financial

57 Bank/Agency Deals Since 6/30/97

58 Broker/Agency Deals Since 6/30/97

Select Deals Brokered During 2001 and 2002

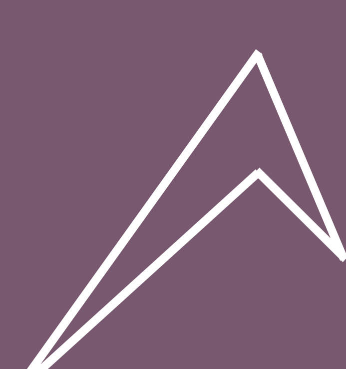
Bank/Agency Deals	Broker/Agency Deals
Compass Bancshares, Inc. *acquisition of* **Schaefer-Smith-Ankeney Insurance Agency, L.C.** Phoenix, AZ Announced May 29, 2002	**Brown & Brown, Inc.** *acquisition of* **Andersen Group, Ltd.** Hinsdale, IL May 1, 2002
First Bank Corporation *acquisition of* **Brown-Hiller-Clark & Associates** Fort Smith, AR Announced May 7, 2002	**Arthur J. Gallagher & Company** *acquisition of* **Equity Underwriting Group** Lexington, KY December 20, 2001
Susquehanna Bancshares, Inc. *acquisition of* **The Addis Group, Inc.** King of Prussia, PA Announced April 30, 2002	**Arthur J. Gallagher & Company** *acquisition of* **The Inwest Group, Inc.** Midland, TX August 6, 2001
Greater Bay Bancorp *acquisition of* **ABD Insurance and Financial Svcs., Inc.** Redwood City, CA March 1, 2002	**Brown & Brown, Inc.** *acquisition of* **Connelly Insurance Group** Clearwater, FL August 1, 2001
First Tennessee *acquisition of* **SYNAXIS Group, Inc.** Nashville, TN January 1, 2002	**Hilb, Rogal & Hamilton** *acquisition of* **Berwanger Overmyer** Columbus, OH June 16, 2001
Union Bank of California *acquisition of* **Armstrong Robitaille** Fullerton, CA November 19, 2001	**Hilb, Rogal & Hamilton** *acquisition of* **B. Perkins & Company** Hartford, CT Announced March 30, 2001
Wachovia *acquisition of* **Crawford, Slevin & Hicks Ltd.** Baltimore, MD November 15, 2001	**Hilb, Rogal & Hamilton** *acquisition of* **The Dunlap Corp.** Auburn, ME February 1, 2001

Learning Services

- Valuation insight, early warning and guidance reports
- Ownership perpetuation preparedness and feasibility assessments
- Return on equity studies for agency owners
- Learning Seminars, both live and on-line
- MarshBerry.com performance calculators
- MarshBerry.com valuation calculators
- MarshBerry.com benchmark comparisons and proven practices studies
- Research studies for agency groups or insurance carriers
- Divestiture and perpetuation strategic option analysis
- GAAP accounting intangible asset allocation evaluation

Improvement Services

- Valuation counseling for long-term equity improvement
- Ownership Perpetuation Plan development and implementation
- Performance counseling as respects growth, costs and financial management
- Strategic consulting for compensation, acquisition and capitalization
- Long range planning facilitation
- Improvement Seminars, both live and on-line
- Benchmarking services for associations, peer groups and mentor groups
- Buy side acquisition incentive compensation and integration
- Cross-marketing capability identification and execution advisory



Realization Services

- Ownership perpetuation counseling from inception to transfer
- Deferred compensation and salary continuation plans
- CEO performance perspectives
- Agency Peak Performance Exchange (APPEX) – by invitation only
- Acquisition feasibility consulting
- Merger partner reality facilitation
- Merger, acquisition and divestiture representation
- Model agency profiling
- Buy side Foundation Agency Valuation identification and candidate introduction

7466 Auburn Road
Concord, OH 44077
Phone: 800-426-2774
Fax: 440-354-0371

31642 S. Coast Highway, Suite 102
Laguna Beach, CA 92677
Phone: 949-415-1813
Fax: 949-415-1817

CB 07-22-02 A 30 7/18/02 1:38 PM Page 1

Mergers: Broker M&A activity remains strong

Continued from page 26

that while Hobbs' successful integration is now HRH's first order of business, "we're not going to exit the field per se."

If a particularly attractive deal comes along "we would probably try to work something out," Mr. Rogal said.

"We will do a few (acquisitions), particularly in markets where we already have an office, and we will seek out selected firms that are a good culture match for us," said John Cay III, chairman of Savannah, Ga.-based Palmer & Cay Inc.

Potential acquisition candidates will represent all segments of the market "but for different reasons," said Mr. Reagan. The larger, privately held firms are "fairly highly sought after" because "they've got what a lot of folks want. I think there will be activity at that level based on buyer demand," he said.

Smaller, independent agents, which may be having problems getting access to insurers, may also consider selling "in order to get better access to markets, to combine forces with other independents to really leverage their clout" with insurers, said Mr. Reagan.

Banks will continue to be a factor, though their ultimate success in the business remains unproved.

> **'Truthfully, I think the risk managers will end up being beneficiaries of this' acquisition activity.'**
>
> *Martin P. Hughes*
> *Hub International Ltd.*

"The more forward-thinking banks want to acquire insurance agencies because they feel like its integral to their need to become more of a problem-solving entity and gravitate to being a trusted adviser to their customers as opposed to just a product pusher," said Mr. Wepler of Marsh, Berry.

Many observers believe that banks' M&A activity in the brokerage market has helped drive up higher purchase prices, though the harder market has also played a role.

Although insurance brokerages have "been pretty disciplined in their approach" to buying brokerages, banks "have clearly added a new dimension and in some cases they certainly have not been as disciplined as the traditional industry players," said Martin P. Hughes, chairman and chief executive officer of Hub International Ltd. in Chicago.

"I think they are competition for us for some quality agencies, but whether or not they're able to take advantage of those acquisitions really still remains to be seen," he said.

Consultant Timothy J. Cunningham, a partner with OPTIS Partners L.L.C. in Chicago, said, "I think there's going to be a real shake out in a couple or three years. I think banks have emerged in many situations as paying premium prices for these acquisitions" at prices "that, frankly, I find it difficult to reconcile or justify."

Mr. Reagan said right now, pricing falls in the range of 6.0 to 8.5 times "EBITDA," or earnings before interest, taxes, depreciation and amortization. Financial institutions are paying in the higher end of that range, regional independent agencies are paying in the lower end "and the public brokers paying somewhere in the middle of that range," though the structure of the transaction can be a factor, he said. In some cases, for instance, the price is tied to future results.

Risk managers may ultimately benefit from the M&A activity.

"Truthfully, I think the risk managers will end up being beneficiaries of this" acquisition activity, said Hub's Mr. Hughes. "You will see firms like us become much larger players with many more capabilities. I think risk managers are going to have several more alternatives than they have today."

"I think risk managers have been looking to the next level (below the megabrokers) to see if there aren't professionals who can actually take care of some of their needs and I think finding a number of players in the market, from strong regional players all the way through to the public brokers that can indeed compete," said Mr. Gallagher.

"I get invited to the dance a lot more now," he said.

Making the right decision for your self-funded employee health benefits can be a challenging journey. As your TPA, we can help you create the pathway to success.

If you need an administrator that can deliver a high level of customer service, strong network access nationwide, and cost-effective benefits management, contact us.

The right health benefits program for your employees is essential to the health of your business, and that's where we fit in. HR Professionals, Consultants and Brokers contact sales@amerihealth-tpa.com or phone 800-984-5933.

Medical • Prescription • Dental • Vision • COBRA • FSA • HIPAA • Wellness

• SERVICES •

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article that has appeared in the magazine. Legal permission complying with U.S. copyright laws also can be provided to companies that seek to reprint, on their own, materials that have appeared in the magazine. For information, please call or fax:

Phone: 312-649-5319
Fax: 312-280-3174

SINGLE-COPY SALES

To order any current or back issue of *Business Insurance*, call the single-copy sales division of *BI's* Circulation Department:

1-888-446-1422

02bi0290 7/11/02 12:25 PM Page 1

Are you still selling yesterday's benefits in today's evolving workplace?

Today, companies of all sizes are challenged by the needs of an employee base that's more diverse, technologically savvy, and more demanding than ever. Partnering with Prudential Financial creates a distinct advantage. We offer simple, cost-effective ways to revolutionize benefits for an evolving workforce.

Group Life
Group Disability
Group Long Term Care

Retirement Services

WorkingSolutions
Voluntary Benefits

Relocation and
Real Estate Services

Group Annuities and
Stable Value Products

Employee Stock Plan
Services

Prudential's Online Retirement Center lets your clients' employees manage their retirement accounts and process transactions, 24/7.

Smarter technology. When it comes to pioneering benefits technology, Prudential is ahead of the curve. Our Web-based services for employers provide timely plan information in ways that are easy to use. And with account access via *prudential.com* or a wireless Palm™ handheld device, busy employees can stay informed and process transactions anytime.

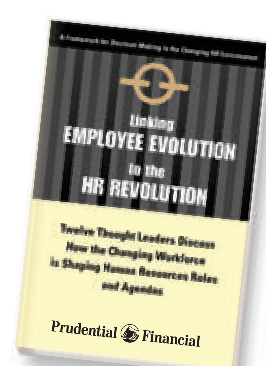
Highly responsive service. Prudential is making it easier to get great service—online, face to face, or over the phone. Plus, you and your clients always have direct access to our highly trained account specialists, who provide expert solutions to help meet benefit needs.

More choices. With Prudential, you get the range of solutions employees want. High-quality core offerings like life, disability and long term care insurance. Plus, retirement programs that feature a diverse array of investment options from Prudential and other leading money managers.

Benefits that go beyond. What if your client wants to extend their employee products and services beyond core benefits? Prudential WorkingSolutions,℠ our turnkey voluntary benefits program, is the smart solution, offering everything from payroll-deducted auto and homeowners insurance to real estate and banking services.

Revolutionize your clients' benefits today. Contact us, or visit *prudential.com*, to learn more about our array of employee benefits programs.

Ask for your free copy of *Linking Employee Evolution to the HR Revolution*, a book published by Prudential Financial which explores trends in today's dynamic workplace.



1-877-778-5899
ext. 5785
prudential.com

Growing and Protecting Wealth℠

Securities products and services are distributed by Prudential Investment Management Services LLC (PIMS), Three Gateway Center, 14th Floor, Newark, NJ 07102-4077, and Prudential Securities, 199 Water Street, NY, NY 10292, both members SIPC. PIMS and Prudential Securities are Prudential Financial companies. Group insurance coverages are underwritten and group annuities are issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, New Jersey. Prudential Real Estate brokerage services are offered through the franchisees of The Prudential Real Estate Affiliates, Inc., a Prudential Financial company. Most franchisees are independently owned and operated. Equal Housing Opportunity. Auto and Homeowners insurance underwritten by Merastar Insurance Company, Chattanooga, TN, 37411, a Prudential Financial company, and in New Jersey by The Prudential Property and Casualty Insurance Company of New Jersey, The Prudential General Insurance Company of New Jersey or The Prudential Commercial Insurance Company of New Jersey. Availability of coverage, discounts, online quotes, payment options and portability features may vary by product and by state. Products and services offered through Prudential WorkingSolutions℠ are provided by Prudential Financial companies as well as by unrelated product providers by arrangement. Prudential WorkingSolutions and Prudential Financial are service marks of The Prudential Insurance Company of America, Newark, NJ, USA and its affiliates. Palm is a trademark of Palm, Inc. or its subsidiaries. Palm, Inc. and Prudential Financial are independent organizations.

CB 07-22-02 A 32 7/18/02 3:12 PM Page 1

1

Marsh & McLennan Cos. Inc.

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

After decades of helping clients deal with disaster, Marsh & McLennan Cos. Inc. itself faced unthinkable disaster last year.

With subsidiaries on 15 floors of the World Trade Center's twin towers, Marsh lost 295 employees in the terrorist attack that killed 2,800 and left a 16-acre void in lower Manhattan. About 1,900 Marsh employees were in the Trade Center towers on Sept. 11, and the dead included New York-based employees and workers from 16 Marsh offices who were visiting at the time the hijacked aircraft struck.

The emotional toll on co-workers has been heavy. But Marsh employees rallied in the days and weeks after the attack to reconstruct records and carry on work for clients, including handling the flood of losses from companies that were damaged in the terrorist assault, Marsh officials say.

Marsh workers moved into temporary offices in Manhattan and locations in Connecticut, New Jersey and Pennsylvania, where many worked seven to 10 days at a stretch, according to John T. Sinnott, chairman and chief executive officer of the company's Marsh Inc. brokerage unit.

Technology industry clients offered Marsh equipment, while others supplied office space, added Roger E. Egan, president and CEO of Marsh's North American operations.

"It wasn't just one, it was many," Mr. Egan said. "The outpouring was really tremendous."

With many Marsh records backed up at other locations and claim files re-created from client and insurer records, the brokerage regained its footing quickly. More difficult have been the "people issues," including the loss of "institutional knowledge" of those who perished and the emotional impact on surviving family members and co-workers, executives say.

After struggling through its recovery, Marsh is now dealing with another impact of Sept. 11: a dramatically harder property/casualty market.

"In my 30 years (in the business), this is the most difficult market, because the difficulty spans most classes of insurance" from property and general liability to excess casualty, workers compensation, surety, professional liability and directors and officers liability—a line that is now in "freefall," Mr. Egan noted.

"It's almost like, 'What's not difficult?' " he said.

Like most brokers, Marsh is working harder negotiating insurance placements and advising clients on structuring programs, including the possible use of alternative risk financing tools such as captives. When the market for aircraft third-party war risk liability dried up after Sept. 11, for example, Marsh brokers working with the major U.S. airlines developed Equitime, a Vermont-based risk retention group intended to take over the war risk coverage.

Most companies haven't faced the coverage crisis the airlines have, but "these types of vehicles are being looked at far more intently than they were," Mr. Sinnott said.

The tightening market has, in turn, spurred revenue growth at Marsh. Total brokerage revenues climbed 5.7% last year to $7.31 billion. During the first quarter of this year, Marsh posted brokerage revenues of $1.48 billion, a 9.0% increase over the same period in 2001.

This revenue growth has offset weaker results in Marsh's investment management and consulting segments. Overall, Marsh's gross revenues for 2001—including interest income on corporate funds, as well as revenue from non-brokerage operations—fell 2.1% to $9.97 billion, and were virtually unchanged for 2002's first quarter.

> **'In my 30 years (in the business), this is the most difficult market, because the difficulty spans most classes of insurance....It's almost like, "What's not difficult?" '**
>
> *Roger E. Egan*

Marsh divides these revenues into three segments:

- Risk and insurance services, where last year's $5.15 billion in revenues represented about 52% of the broker's gross revenues.

This includes the retail brokerage business of Marsh Inc.; reinsurance brokerage business of Guy Carpenter & Co. Inc.; wholesale brokerage provided by various units; and the revenues of MMC Capital, an insurance investment unit.

Following the Sept. 11 attacks, MMC Capital raised $1.6 billion to form AXIS Specialty Ltd., a Bermuda-based insurer and reinsurer.

- Investment management services, provided by Putnam Investments Inc.

Putnam last year brought in $2.63 billion, or 26%, of Marsh's total revenues, but has seen its revenues slide substantially since 2000 with the declining stock market.

- Consulting, which produced $2.16 billion, or about 22%, of Marsh's 2001 revenues.

This segment includes Mercer

Continued on page next page

Life is eventful

- Lock in mortgage
- Order Wallpaper
- more Life Insurance ?

1. Auto and Homeowner's Insurance underwritten by Metropolitan Property and Casualty Insurance Co. and Affiliates, Warwick, RI. In Texas, homeowner's insurance is provided by Metropolitan Lloyds Insurance Company of Texas. 2. Hyatt Legal Plans, Inc., Cleveland, OH. Subject to approval in some states. In certain states provided through insurance coverage underwritten by Metropolitan Property and Casualty Insurance Co. and Affiliates, Warwick, RI. 3. Available through Metropolitan Life Insurance Company group annuity contracts. Mutual funds are offered by MetLife Securities, Inc., NY, NY. ©2002 Metropolitan Life Insurance Co., NY, NY. PEANUTS © United Feature Syndicate, Inc. L02046LOV(exp0403)MLIC-LD

Dental • Disability • Life • Voluntary Benefits • Auto and Home[1] • Long-Term

Continued from previous page

Consulting Group, among the world's largest human resources and management consulting firms; National Economic Research Associates, an economic consultant; and Lippincott & Margulies, a corporate identity and brand-management consultant.

Marsh, which has long been a leading broker for Fortune 500 companies, is seeing its fastest growth in its middle-market and small commercial accounts business, said Ray J. Groves, president and chief operating officer of Marsh Inc. Mr. Groves, a former chairman of Legg Mason Merchant Banking Inc. and a longtime Marsh & McLennan director, assumed his posts at Marsh Inc. in October.

"Our organic growth in the middle-market is strong," Mr. Egan agreed. "Our market share is smaller than in the (large account) risk management arena, so there is a lot of room to grow."

Alternative risk financing vehicles 'are being looked at far more intently than they were.'

John T. Sinnott

Another growth area has been Marsh Risk Consulting, which offers "tactical" risk management consulting services as opposed to the "strategic" services provided by Mercer, Mr. Sinnott said.

Among the consulting operations, for example, is Marsh's Claims Accounting and Preparation Services unit, which does forensic accounting work and helps prepare complex business interruption claims.

"CAPS services are being fully utilized now, mainly to deal with 9/11," Mr. Egan said.

Another unit attracting more client interest since Sept. 11 is Marsh's Crisis Management operation, which helps companies plan to deal with a variety of potentially crippling events.

The unit is headed by L. Paul Bremer III, former U.S. ambassador-at-large for counter-terrorism in the Reagan administration and current member of a White House advisory committee on homeland security.

Insurance market conditions being what they are, though, there is no part of Marsh's business that is not growing, Mr. Groves said.

"All geographic areas are strong, and all segments are strong," Mr. Egan agreed.

Marsh has, in fact, been adding brokerage employees, mainly to handle insurance placement duties for North American accounts, according to Mr. Egan. At the end of last year, the company had 52,000 employees providing brokerage, consulting and related services, up from 50,500 at year-end 2000.

Marsh—which acquired rival brokerage giants Johnson & Higgins and Sedgwick Group P.L.C. in the late 1990s—operates through 588 offices in more than 100 countries around the world. About 59% of its brokerage revenue was generated from U.S.-based clients and 41% from non-U.S. clients last year, a split that is unchanged from 2000.

In May, Marsh acquired Eurobrok, a broker based in Bilbao, Spain, that specializes in middle-market business.

Although mergers and acquisitions have accelerated among smaller U.S. brokers in the last couple of years (see related story, page 14), Marsh executives appear doubtful about further U.S. acquisitions by the world's largest broker.

Marsh's "footprint"—its network of U.S. offices—is large enough now, and the broker instead is focusing on producing organic growth in risk management, middle market and small commercial accounts through its existing offices, Mr. Egan suggested.

On July 12, Marsh's stock closed at $44.19 a share, with a 52-week high of $57.30 and a 52-week low of $39.50.

—*By Douglas McLeod*

MetLife is easier

MetLife's Life Insurance Calculator helps your employees determine the right amount of life insurance at every turn.

As your employees' lives change, so does their need to protect the things they've worked hard to achieve. MetLife's Life Insurance Calculator helps them build a personalized life insurance plan to assure their families have a secure future. Visit our website and see for yourself how the calculator works.

MetLife® Group Life

www.metlifeiseasier.com/life

1-877-638-2862

Care • Group Legal Plans² • 401(k) • Investment Products³ • Executive Benefits

Order Any Issue Now ...While Supplies Last

Has your company appeared in a ranking ...

Have you or a colleague been mentioned in an article ...

Do others in the office keep borrowing your only copy...

Or do you need extra copies for your next meeting...?

Don't wait... Don't miss out!

Call us toll-free at (888) 446-1422 or (313) 446-0450 outside U.S.

We offer quantity discounts and an overnight option too.

CB 07-22-02 A 34 7/18/02 3:14 PM Page 1

2

Aon Corp.

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

For Aon Corp., 2001 posed a number of challenges, none more emotionally wrenching than the loss of 175 employees in the World Trade Center attack.

The 175 killed on Sept. 11 were among 1,100 Aon employees who occupied floors 92 and 98 through 105 of the World Trade Center's South Tower.

"It was extremely difficult for the entire Aon family to lose 175 colleagues in the World Trade Center tragedy," said Patrick G. Ryan, chairman and chief executive officer of Chicago-based Aon. "We lost 175 good people, and, clearly, we lost some intellectual capital."

In addition, "the business interruption was quite severe," Mr. Ryan said. Among other things, Aon's East Coast service center, which had been located in its World Trade Center offices, had to be rebuilt from scratch.

"Clearly, there was a disruption to our business," Mr. Ryan said. "And it's not just New York business, because New York is a global center for us."

"So it was more than losing an office," he said. "It was very much losing a core piece of the global operation."

In terms of the company's recovery from the disaster, "I think you have to define 'recovery,'" Mr. Ryan said. "There are parts of it that we will never recover from."

But "the ability of Aon to do its business in New York is good at this point," the chairman and CEO said. "They're doing well. Of course, they're not doing as well as if there never had been a World Trade Center (attack)."

The loss of the World Trade Center, which housed Aon's largest retail brokerage office, contributed to delays in implementing changes to Aon's U.S. retail brokerage operations set out in the company's business transformation plan.

With regard to U.S. retail brokerage, that transformation plan included the redesign of business processes and job roles and the creation of four new customer service centers to supplement Aon's network of regional offices.

The major factor in Aon's 57% drop in net income to $203 million in 2001 was declining investment income, marked by a $171 million nonoperating investment loss last year, compared with $71 million in investment earnings the year prior. But the company also cited underperformance of its U.S. retail brokerage business, in terms of implementing the business transformation plan, as a significant factor.

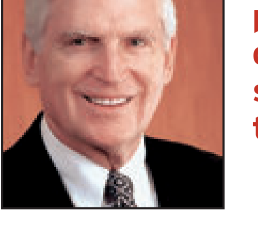
As of July 12, Aon stock was trading at $24.98 per share; its 52-week high and low prices were $44.80 and $23.94, respectively.

Aon's commercial retail brokerage revenues generated through U.S. offices declined to approximately $1.53 billion in 2001, from nearly $1.56 billion in 2000, though the company's total commercial retail brokerage revenues increased to more than $2.99 billion last year, from $2.95 billion a year earlier. Total brokerage revenues in 2001 were nearly $5.6 billion, up 9.0% over the prior year.

Aon's total corporate gross revenues, which include its underwriting operations and other services unrelated to brokerage and consulting, were $7.68 billion in 2001, up 4.1% from 2000.

"The very positive results around the globe in terms of so many of the international businesses doing extremely well" was a highlight of 2001, Mr. Ryan said, along with "the Aon network coming together as a team."

The delay in implementing the transformation plan, which was inaugurated in late 2000, both increased transition costs and reduced anticipated savings, though Aon expects the plan to bring savings of approximately $150 million this year.



The sacrifices made in 2001 and early 2002 have allowed Aon 'to position ourselves for the next decade, or longer, to provide services the way clients would like to receive them.'

Patrick G. Ryan

The transformation, which has cost Aon $330 million through 2001, was a major undertaking for the company, Mr. Ryan said.

"It was a clear challenge," he said, but the sacrifices made in 2001 and early 2002 have allowed the company "to position ourselves for the next decade, or longer, to provide services the way clients would like to receive them."

The transformation has broken down barriers within the organization, making it easier to bring together resources from across Aon's operations to serve clients, Mr. Ryan said.

And Aon employees are beginning to recognize that when the company has client opportunities, it's now possible to bring the appropriate people together to meet those opportunities in ways they hadn't expected, he said.

That ability is particularly useful given the difficulties of the current insurance market environment, he said.

"We believe it has positioned us to take these very complicated risks—or all risks—to market at this time, because it truly takes a real focus of talent," Mr. Ryan said. "As a result, I think we're achieving results for our clients that are far better than had we not transformed."

The company has completed its four regional service centers in the United States, and its business transformation effort is complete in the United Kingdom. "Bottom line, I would say the project of transformation is complete," Mr. Ryan said. "The development and refinement of transformation will continue."

Transformation "has not been a panacea," Mr. Ryan conceded. "We're conscious of the challenges and problems associated with transformation."

But, he said, "we feel very good about what transformation has brought to Aon—an even sharper focus on serving the client."

As for the performance of the U.S. retail brokerage operation, Mr. Ryan said, "I'm very encouraged. Our new business production is moving back to where it has been."

"We'd always been what I call a selling machine," he said. "It's basically, in my judgment, regaining that same cultural level."

Both new business and business retention in the U.S. retail brokerage operation were well off the company's norms last year, Mr. Ryan said, but "the bottom line is we believe we have returned to the norm, and we're very optimistic about what's happening."

As part of the effort to help the U.S. retail brokerage operation regain its footing, Michael D. O'Halleran, Aon's president and chief operating officer, is currently managing that operation full time.

"It's a temporary assignment that I asked Mike to focus on," Mr. Ryan said. "When you face a problem, you want to put your best people against it to solve it."

"What I've asked Mike to do is to drive us into the position that we expect to be in coming out of transformation," the company's chairman and CEO said.

In a hard insurance market, Aon is also positioned to benefit from its captive insurance operation. That aspect of the company's business continued to grow last year; Aon became the world's largest captive manager with its acquisition of SINSER Holding A.B. from Skandia Group.

"We have been looking to the future for quite some time to give our clients whatever solutions might be necessary," Mr. O'Halleran said. Noting the company's status as the world's largest captive manager, he said, "I'm not talking about megalomania here, but scale and size are very important in order to meet these clients' demands."

"The alternative marketplace is a very important one for us and one in which we feel very good about being able to serve the needs of our clients," Mr. O'Halleran said.

And linking Aon's retail brokerage and reinsurance brokerage operations, its Cambridge Integrated Services Group claims and loss management unit and its captive management activities, Mr. O'Halleran said, leaves Aon positioned to go "from the womb to the tomb," with clients' risks.

— By Rodd Zolkos

LEADING U.S. RETAIL BROKERS

Based on 2001 retail brokerage revenues from U.S. offices

	Company	2001 revenues	% change
1	Marsh & McLennan Cos. Inc.	$2,822,973,000[1]	15.5%
2	Aon Corp.	1,528,000,000	-1.9
3	Willis Group Holdings Ltd.	531,644,280	16.5
4	Arthur J. Gallagher & Co.	452,109,000	24.2
5	Acordia Inc.	362,125,000	17.7
6	Hilb, Rogal & Hamilton Co.	256,456,010	28.9
7	Brown & Brown Inc.	248,219,890	97.3
8	Lockton Cos. Inc.	243,675,000	30.7
9	USI Insurance Services Corp.	237,225,000	9.4
10	BB&T Insurance Services Inc.	151,649,496	28.3
11	Wells Fargo Insurance Inc.	134,309,000	-10.3
12	ABD Insurance & Financial Services	97,885,000	18.0
13	CBIZ Benefits & Insurance Services	95,917,500	17.0
14	McGriff, Seibels & Williams Inc. -An Assurex Global Partner	90,907,261	29.2
15	Hobbs Group L.L.C.	89,488,000	8.2
16	Palmer & Cay Inc. -An Assurex Global Partner	84,057,461	8.5
17	Near North Insurance Brokerage Inc.	78,241,000	8.1
18	John L. Wortham & Son L.L.P. -An Assurex Global Partner	67,061,000	13.5
19	Frank Crystal & Co. Inc.	66,460,600	13.8
20	Hub International Ltd.	63,970,000	149.9

1 *BI* estimate
Source: *BI* survey

3 Willis

Willis Group Holdings Ltd.

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

If the chief executive officer of London-based Willis Group Holdings Ltd. were to choose one word as his mantra, that word would be "growth."

"We're going to grow this business, and we're going to use all of the arrows in our quiver to do that," said Joseph J. Plumeri, who was appointed CEO of the world's third-largest broker in October 2000.

"We want to grow this company in everything that we do. We want more people to join us. We want people to understand that we take our business seriously and that we're very focused on being the very best client advocate that we can possibly be," Mr. Plumeri said.

"We're really not content with being No. 3," he continued. "That's a pretty aggressive statement, but five years from now, if we are still No. 3, I don't think I will have done my job."

"Aggressive" may be an understatement, considering the size of Willis' higher-ranking competitors. Willis, which reported 2001 brokerage revenues of $1.42 billion, is one-fourth the size of Aon Group Inc., whose $5.60 billion in 2001 brokerage revenues makes it the world's second-largest broker. Marsh Inc., the world's largest broker, with $7.31 billion in brokerage revenues, is five times larger than Willis.

Even so, Mr. Plumeri said he is not deterred from his growth projections. "We just want to grow, and where that takes us, it takes us. We'll see what happens," he said.

"You never have a goal of how big you are; you have a goal of how good you are. But in getting really good, by definition, I think you have to get bigger because our market share is smaller than Aon's and Marsh's. We can't grow unless we take market share from them," he said.

Since Mr. Plumeri joined Willis, the former Citigroup executive has taken the broker public once again, redomiciled its holding company to Bermuda and embarked on an ambitious growth campaign that includes improving sales, recruiting top-notch talent and making acquisitions.

"When I got to Willis about 19 months ago, one of the things that we wanted to do was to change the culture of the company to make it a much more sales-oriented company—one that looked very, very closely at growing new accounts, retaining clients and cross-selling" to round out accounts, Mr. Plumeri said.

The results of this culture shift are beginning to be seen.

Sales grew 12% in 2001 and 17% in the first quarter of this year, Mr. Plumeri said.

In addition, while revenue growth last year was evenly split between premium rate increases and new business, by the first quarter of 2002 that split was 60% new business to 40% rate increases, he said. The new business came across all lines, he said.

Overall, Willis reported a 9.1% rise in total revenues in 2001, to $1.42 billion. Because brokerage

Continued on page 36

CB 07-22-02 A 36 7/18/02 3:17 PM Page 1

Continued from page 34

and related services account for virtually all of Willis' revenues, its brokerage and corporate revenues are the same.

Profits fell 78%, to $2 million, in 2001 but include a $158 million pretax charge for performance stock options granted to management as part of the 1998 buyout arrangement with Kohlberg Kravis Roberts & Co.

Excluding the stock option charge, goodwill amortization and other nonrecurring items, Willis' operating earnings rose 172%, to $174 million, in 2001.

In the first quarter of this year, revenues rose 20.3%, to $451 million, while profits rose 74.4%, to $68 million.

In addition to focusing on new business, account retention and cross-selling, Willis also is looking to grow the company through a strong recruitment effort.

'We're really not content with being No. 3 That's a pretty aggressive statement, but five years from now, if we are still No. 3, I don't think I will have done my job.'

Joseph J. Plumeri

Willis has taken on more than 300 people in the last 15 months, which more than makes up for the 275 employees who left the company, retired or were terminated in 2001.

Among Willis' recent hires, Joe Trotti, a former senior vp with American International Group Inc., has been named CEO of Willis Global Aviation/North America in New York. And Willis hired Tom Ealy, former Midwest regional CEO of USI Insurance Services, as president and CEO of its Chicago office.

Acquisitions also are part of Willis' growth plan.

"We're very much in earnest about acquisitions, but we're not going to do anything silly," Mr. Plumeri said. "This is not like a kid in a candy shop, where you have a few bucks and you buy anything you can to buy things. We're going to do it intelligently," he said.

At the end of 2001, Willis acquired San Francisco-based broker Richard N. Goldman & Co., which merged with Willis' existing San Francisco office.

In January of this year, the broker boosted its equity ownership in Jaspers Wuppesahl Industrie-Assekuranz GmbH, Germany's third-largest insurance broker, to 67% from 45%, and renamed the operation Willis GmbH & Co. K.G.

While Mr. Plumeri said that Willis is looking more at the North American acquisition market, the broker wants to increase its ownership in the eight overseas brokers in which it currently has a minority stake, including France's largest broker, Gras Savoye S.A. Willis owns a 33.4% stake in Gras Savoye, with an option to purchase a majority stake in 2009.

By having a majority stake, Willis not only can consolidate those earnings but also grow the brand name of Willis within the foreign broker, Mr. Plumeri said.

Willis operates in 104 countries around the world. With the exception of a few operations that it built on its own, it historically has relied on purchasing equity ownership in brokers, with the option of eventually purchasing 100% ownership.

Currently, Willis has majority or minority equity ownership in brokers in 80 countries and has affiliate relationships with brokers in the remaining 24 countries.

Willis' acquisition drive is partly funded by its June 2001 initial public offering, in which it raised $270 million, before expenses. The broker has since completed two secondary offerings, which have diluted the holdings of its investor owners.

KKR now owns 40% of the broker, while the public owns 47%. The remaining shares are held by directors, employees, a small investment group and four insurers: Paris-based AXA Group, London-based Royal & SunAlliance Insurance Group P.L.C., Hartford, Conn.-based The Hartford Financial Services Group Inc. and Tokyo-based The Tokio Marine & Fire Insurance Co. Ltd. Two other insurer investors involved in the 1998 buyout—Warren, N.J.-based Chubb Corp. and Hartford, Conn.-based Travelers Property Casualty Corp.—have since sold their stakes in Willis.

Mr. Plumeri said there is no specific timetable for KKR or the insurers to sell their interests in Willis, but he expects them to do so eventually.

In the meantime, Willis will continue with its plans for growth, building on what it considers the quality that most distinguishes it from its competitors.

"Our model is of a pure broker," Mr. Plumeri said. "Of the three global brokers, we're the only one that concentrates on just being a broker."

"When you do nothing else but concentrate on being a broker, I think that's a foot up on your competition," he said. "If you had a problem with your ear, and you had a choice of going to an ear specialist or a general practitioner, where would you go? We do this for a living. It's all that we do. We're not distracted by anything else," he said.

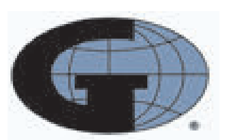
As of July 12, Willis stock was trading at $29 per share, down from its 52-week high of $34.02 but well above its original IPO stock price of $13.50 per share in June 2001.

—By Sally Roberts

Reagan Consulting
4 column x 10"

CB 07-22-02 A 38 7/18/02 1:41 PM Page 1

4



Arthur J. Gallagher & Co.

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

A hardened insurance market is only part of the story behind the strong growth in brokerage revenues and earnings at Arthur J. Gallagher & Co.

Although the market underpins Gallagher's results, the brokerage positioned itself for that growth over the past several years through an aggressive acquisition strategy as well as through strong organic growth, by creating new areas of expertise and bolstering existing strengths, and by establishing a global presence—albeit on its own terms.

Those efforts resulted in "just an outstanding year" for the brokerage, said J. Patrick Gallagher Jr., president and chief executive officer of Itasca, Ill.-based Gallagher. Brokerage revenues in 2001 climbed 21.9% to more than $873 million. That ranks Gallagher—which will celebrate its 75th anniversary in October—as the world's fourth-largest broker for the fourth consecutive year. Gross revenues, which include investment income, grew 22.8% to more than $910 million.

With a 24.7% increase in employees, fueled equally by acquisitions and organic growth, revenues per employee slipped 2.3% to $134,560. But Gallagher reports a nominal increase as a result of its practice of restating its prior year's financials to reflect its acquisitions.

Net earnings, fueled in part by the sale of some investments, jumped 42.7% to nearly $125.3 million in 2001. That was Gallagher's best earnings performance in more than a decade.

In the first quarter of 2002, gross revenues grew 15% to nearly $249.2 million, and net earnings increased 24% to nearly $33.7 million.

Gallagher occasionally places coverage—particularly directors and officers liability insurance—for large accounts, but its forte is the middle market. Gallagher's specialties include construction, scholastic, hospitality, public entity and real estate risks; religious and nonprofit organizations; and restaurants.

Several factors drove the brokerage's success last year, according to Mr. Gallagher.

One significant factor was the hardening property/casualty insurance market, he said. Gallagher's revenues from commissions jumped 27.6%, while fee revenue increased 15.9%.

Gallagher also benefited from a growing global presence, Mr. Gallagher asserted. More than 10% of Gallagher's employees—which numbered nearly 6,500 at year-end 2001—are located outside of the United States, he said.

In addition, Gallagher has relationships with brokers in more than 100 countries. "You don't have to own a network" of brokers to place coverage effectively for global risks, Mr. Gallagher said.

To further leverage its opportunities, the always acquisition-minded Gallagher last year continued a heavy buying spree that began in 2000. After a then-record 15 purchases in 2000, Gallagher acquired 16 agencies and brokerages last year. Through the first six months this year, Gallagher announced seven deals.

Making acquisitions has developed into a "core competence," Mr. Gallagher said. The brokerage does not "buy anything that needs fixing," he said.

A few recent acquisitions have been particularly noteworthy to the brokerage, Mr. Gallagher said.

The June 2001 acquisition of The Galtney Group Inc.—Gallagher's largest acquisition ever—"was very important," because the Houston-based brokerage "filled out" Gallagher's medical malpractice brokerage capabilities, Mr. Gallagher said. "It put us in a position to be recognized in the med mal and health-related risks field."

'You don't have to own a network' of brokers to place coverage effectively for global risks.
J. Patrick Gallagher Jr.

Another unusually large and important deal was the February 2001 acquisition of MDM Insurance Associates Inc. of Los Angeles. One of MDM's specialties is placing directors and officers liability and miscellaneous professional liability insurance. With MDM, Gallagher continued to develop its executive risk specialty, which also includes employee practices and fiduciary liability risks.

"Five years ago, people would have said we were not much of or were a small player" in that market, Mr. Gallagher said. "Now, we're recognized as a real player. MDM helped there."

Five of Gallagher's 23 acquisitions in the past 18 months had excess and surplus lines specialties, another area in which Gallagher "is trying to branch out more," Mr. Gallagher noted. Gallagher reports that revenues at its excess/surplus lines unit, Risk Placement Services Inc., grew 45% last year, and it predicts that growth pace will continue this year.

"It's a great spot to be in, because outside brokers need a lot of help," Mr. Gallagher said.

To spark and sustain its contacts with outside retail agents and brokers seeking wholesale brokerage assistance, Gallagher launched a Web site to showcase its programs as well as the individual expertise of its producers. The number of agents and brokers registered at the site, *www.coveragefirst.com*, doubled to 6,000 last year, and 1,000 more have registered this year, according to Mr. Gallagher.

Meanwhile, Gallagher's Lloyd's broker, Arthur J. Gallagher (UK) Ltd., reported a record 21% revenue gain in 2001, partly as a result of creating two new divisions and bolstering its staff by 50%, to 300.

At other Gallagher operations:

- Risk management services provider Gallagher Bassett Services Inc., the nation's fourth-largest claims administrator in *BI*'s 2000 ranking (*BI*, March 4), retained 97% of its clients last year and grew new business by 25%, according to Gallagher.

Gallagher Bassett last year teamed with Kemper Insurance Cos. and UnumProvident Corp. to offer clients a fully integrated disability management program. It also launched an interactive Web site that allows injured workers to track their claims status and payment information.

Meanwhile, the unit's 2-year-old client claims information Web site, *www.risxfacs.com*, is getting up to 6 million hits monthly. Mr. Gallagher said that 70% of clients' reports now are paperless.

- Gallagher Benefit Services Inc. completed the consolidation of all its employee benefits operations, a move designed to bolster client-support resources. Gallagher Benefit's office count in recent years has nearly tripled to 37 at year-end 2001.
- Gallagher's reinsurance operation, John P. Woods Co. Inc., last year again ranked as the world's eighth-largest reinsurance intermediary (*BI,* March 18).
- Gallagher Financial Products was launched in May 2001 to develop and produce a broad array of insurance-based financial products.
- AJG Financial Services Inc., Gallagher's investment subsidiary, completed the sale of an alternative energy investment that it predicts will generate between $84 million and $186 million in pretax gains for Gallagher over the next six years.

Other Gallagher units provide a range of alternative market services, from developing all types of captives to accessing the Bermuda excess market for risk-financing mechanisms.

Among recent management changes, James S. Gault was promoted in late June to president and chief operating officer of the Brokerage Services Division, Gallagher's largest unit. In this long-planned move, Mr. Gault succeeds James J. Braniff III, who becomes a regional vp in Houston, his hometown. Mr. Gault reports directly to Mr. Gallagher.

Gallagher's shares closed at $30.73 on July 12. The 52-week high and low are $38.82 and $25.37, respectively.

—By Dave Lenckus

5

Jardine Lloyd Thompson Group P.L.C.

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

The pressures of a hard market don't worry London-based broker Jardine Lloyd Thompson Group P.L.C. because the broker specializes in difficult insurance placements, said JLT Chief Executive Officer Steve McGill.

Creative structuring and the placing of business into the London, Bermuda and European markets has, over the years, won JLT business from some of the world's largest companies. The broker has been particularly successful in the pharmaceutical, energy and telecommunications sectors, in which insurance placement and risk management is far from straightforward.

"We are highly regarded for our creative approach to handling business, both conventional insurance and reinsurance and alternative risk transfer," Mr. McGill said.

"Lloyd Thompson started out as an organization of 350 people. We are now a group of more than 4,000 people, but our characteristics have not changed," he said. "We employ the best people in their chosen fields, and the top people of our organization still deal with our clients and still broke the business."

'We employ the best people in their chosen fields, and the top people of our organization still deal with our clients and still broke the business.'
Steve McGill

That hands-on approach, in which clients are dealt with at the most senior level, distinguishes JLT from its larger competitors, Mr. McGill said, and it has contributed to both revenue and profit growth during the last decade.

In 2001, JLT's total brokerage revenues increased 20% to £367 million ($528.3 million) from £305 million ($462.4 million), while pretax profits increased 8% to £78.8 million ($113.4 million) from £72.9 million ($110.5 million).

The company benefited from its U.K. acquisitions in 2000, most notably that of benefits broker Burke Ford Group and Abbey National Benefit Consultants.

Overall, JLT saw strong organic growth in its Risk Solutions and Corporate Risks and Services business groups during 2001, Chairman Ken Carter wrote in the company's annual report. Revenue for continuing operations of the Risk Solutions Group increased by 19%, to £163.9 million ($236.0 million), and for the Corporate Risks and Services Group by 30%, to £182.5 million ($262.7 million).

JLT changed its operational structure in January 2002, reorganizing into two business groups—Risk and Insurance and Employee Benefits—to "better reflect the group's main lines of business in a simpler frame-

Continued on page 40

COMPARING BROKER PRODUCTIVITY

Ranked by 2001 brokerage revenues per employee

Top 10 brokers	Revenues/employee
Marsh & McLennan Cos. Inc.	$140,615
Willis Group Holdings Ltd.	$136,738
Arthur J. Gallagher & Co.	$134,560
Aon Corp.	$130,163
Jardine Lloyd Thompson Group P.L.C.	$126,912
Hilb, Rogal & Hamilton Co.	$125,984
Brown & Brown Inc.	$123,142
Acordia Inc.	$111,317
HLF Group P.L.C.	$107,162
Alexander Forbes Ltd.	$81,855

Most productive brokers	Revenue/employee
Mid American Group Inc.	$337,501
AirSure Ltd.	$336,248
The Sklover Group Inc.	$280,000
Frank Crystal & Co. Inc.	$274,858
Capacity Group of Cos.	$265,528
Aviation Insurance Services	$252,933
SullivanCurtisMonroe Insurance Brokers	$246,045
Calco Insurance Brokers & Agents Inc.	$225,544
Hobbs Group L.L.C.	$224,936
Thesco Benefits L.L.C.	$222,017

Source: *BI* Survey

02bi0282.qxd 7/5/02 3:04 PM Page 1

FIND THE PERFECT INSURANCE FIT

Find your fit and hire top insurance talent with HotJobs, the smarter solution.

Let a HotJobs Desktop Package help deliver insurance talent to your company, with:

- **Custom-built packages —** post jobs, search our resume database, or both
- **Refreshable job postings —** change, edit, or update postings at no additional cost
- **Versatile searching —** search our database or have resumes e-mailed directly to you
- **Easy-to-use tools —** manage the whole process online, even pre-screen applicants

HotJobs is now the exclusive provider of job listings on Yahoo! – the #1 global Internet destination with 237 million unique visitors each month.

As part of Yahoo!, HotJobs' job listings will also be viewable on a local level through "Yahoo! Get Local" (http://local.yahoo.com) which provides information for over 36,000 cities across the U.S.

We'll tailor our affordable Desktop Packages to fit your time frame, job volume and budget — so you save money. Call today and discover the smarter recruiting solution.

Call now for a FREE demonstration.
Toll-Free: 1-877-HOTJOBS (1-877-468-5627)

hotjobs®
a YAHOO! service

© 2002 HotJobs, Ltd. All rights reserved.

ONWARD. UPWARD.

Continued from page 38
work," Mr. Carter wrote in the annual report. In the context of the new groups, Risk and Insurance had revenues in 2001 of £272.1 million ($391.7 million), and Employee Benefits had revenues of £74.0 million ($106.5 million).

Mr. McGill admitted that the company is highly profit-driven and will not expand into territories or fields purely for the sake of expansion. For example, he said, it has no plans to expand into the U.S. retail market and has been steadily selling the U.S. retail operations it acquired following its merger with Jardine Insurance Brokers. JLT is also moving cautiously as far as continental Europe is concerned, according to Mr. McGill, who pointed out that its European partner, Paris-based SIACI S.A., is also very profit-driven.

"Our business model is absolutely suited to the market we are in, and I am excited about the prospects going forward. We are small enough to handle the most complex issues and large enough to deal with the most sophisticated clients,'' Mr. McGill said.

"One of our real characteristics is the ability to attract, retain and motivate our staff. We rarely lose anybody," he said, pointing out that JLT in recent years has recruited several prominent individuals from larger rival brokers. He noted that in 2001, for example, "we built a world-class position in financial and professional risks with the recruitment of Mark Hardinge and 12 colleagues and strengthened our reinsurance capabilities with the recruitment of leading figures in London and North America." Mr. Hardinge, now deputy CEO of JLT Risk Solutions, had worked for Marsh Ltd. for 18 years.

"We are more dynamic, less bureaucratic and more personalized" than larger competitors, Mr. McGill said.

Meanwhile, Mr. McGill said, the profile of the insurance brokering industry is changing dramatically and is being viewed on a par with other financial professionals such as investment banks and management consultants.

Risk management and risk transfer now are top management concerns, for a number of reasons, including the hard market, the post-Sept. 11 environment and the increasing spotlight on corporate governance, Mr. McGill said.

"There is not a CEO that doesn't want to talk about risk," said Director John Hastings-Bass.

As a result, the "profile of insurance brokers now is extremely high, as clients realize that they have to go to the service providers that can help them resolve these problems," Mr. McGill said.

One of the products developed by JLT in recent years is Risktrack, a software program that helps companies meet corporate governance requirements for addressing their risks, Mr. Hastings-Bass said.

Alternative risk transfer is one of the areas to which JLT has devoted time and resources in recent years and in which it regards itself as a leader.

However, the highly complex ART deals that insurers, brokers and investment banks have been working on in recent years likely will decline initially during the hard market, as addressing more conventional insurance and reinsurance requirements takes more time and effort and provides better compensation, Mr. McGill predicted.

"ART is moving back into the insurance landscape. ART techniques are having to be deployed to help clients manage their risks more effectively," he said, pointing out that "clients are having to be more proactive and looking at ways of restructuring their programs."

Brokerage revenue generated from U.S.-based clients accounts for 28% of the company's total revenues, and the company has "very important trading relationships with a lot of U.S. regional brokers," said Mr. McGill, noting that it specializes in affinity group business, as well as specialist reinsurance and ART.

Mr. McGill said that JLT also believes that the United States offers "good opportunities in employee benefits," particularly the outsourcing of administrative work by both clients and insurers.

The company last year increased its revenues from U.S. employee benefits by 13%, to £28.1 million ($40.5 million).

Employee benefit revenue also increased in the United Kingdom and Ireland, by 56% to £45.9 million ($66.1 million). The company is now the third-largest administrator of outsourced private-sector pension plans in the United Kingdom and retained 98% of the existing client base since integrating Abbey National Benefit Consultants last year, Mr. McGill said.

"Employee benefits business complements our insurance activities well," Mr. McGill said. "Three- to five-year contracts, which provide long-term revenue stability, are the norm—and the business is not subject to the market cycles seen in our risk and insurance business."

JLT's stock closed at $9.31 on July 12. Its 52-week high was $12.10; its low was $3.86.

—*By Carolyn Aldred*

TOP BROKERS' REVENUE GAINS IN HOME CURRENCY

Based on 2001 brokerage revenue gains

Broker	Gain
Brown & Brown Inc.	75.6%
Alexander Forbes Ltd.	36.7%
Hilb, Rogal & Hamilton Co.	25.9%
Arthur J. Gallagher & Co.	21.9%
Jardine Lloyd Thompson Group P.L.C.	20.3%
Acordia Inc.	17.7%
Willis Group Holdings Ltd.	14.8%
Aon Corp.	9.0%
HLF Insurance Holdings Ltd.	8.2%
Marsh & McLennan Cos. Inc.	5.7%

Source: *BI* survey

Pointing you toward success.

If you want to broaden your horizons by expanding your specialty market business, let the Aon Specialty Product Network show you the way.

You'll get instant access to over 400 specialty insurance products, programs and agency support services from more than 30 of the industry's most powerful and respected wholesalers, managing general underwriters, benefits and alternative risk specialists and consultants—all members of the Aon family. The Aon Specialty Product Network provides you expertise in every aspect of the business from insurance coverage and premium financing to program claims administration, surety portfolio and rent-a-captive management. There's no easier way to meet the challenge of placing new, large or unusual risks, or of identifying risk management solutions that satisfy your clients' specialized needs.

Just call **1-877-ASK-ASPN** to harness the know-how and capacity you're looking for. By working with the Aon Specialty Product Network you simplify how you do business and enhance the business you can do. You won't have to search for markets or create new relationships.

Let us take you where you want to go. Call us for a detailed description of our provider companies and their capabilities or visit our Web site.

ASPN *Aon Specialty Product Network*
Powerful Connections

To get the powerful connections you need, call:
1-877-ASK-ASPN *[1-877-275-2776]*
Or visit our Web site at ***www.askaspn.com***

© 2002, Aon Specialty Product Network

02bi0296 7/15/02 11:16 AM Page 1

DO YOUR EMPLOYEES POSSESS BODIES, TEETH AND BRAINS?

IF SO, PLEASE CONSIDER OUR LINE OF FINE PRODUCTS.

Health · Dental · Behavioral Health · EAP · Pharmacy · Life

Quite literally, Blue Cross of California can help you protect your employees from head to toe. More than just health care coverage, Blue Cross extends its strength and 65 years of experience to a host of other human needs as well. Our specialty products cover everything from Dental, Pharmacy and Behavioral Health, to EAPs and FSAs. Even Life Insurance. To learn more about our full line of products, use your fingers, eyes and brain and visit www.bluecrossca.com.

The Power of Blue.℠

Health, Dental, Pharmacy and Behavioral Health from Blue Cross of California (BCC) and/or BC Life & Health Insurance Co. (BCL&H). Life insurance and FSAs from BCL&H. BCC and BCL&H are Independent Licensees of the Blue Cross Association. ©2002 BCC.

CB 07-22-02 A 42 7/18/02 3:17 PM Page 1

Acordia Inc.

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

Following a very busy year—in which it was acquired, moved headquarters, integrated with its parent's existing brokerage unit, then reorganized and moved again—Acordia Inc. is back on track serving its middle-market clients in mid-size cities and growing its business.

After nearly six months in which Acordia operated as a subsidiary of Wells Fargo Insurance Inc., the parent bank last November reorganized its insurance operations. Acordia moved back to Chicago from St. Louis Park, Minn., reclaimed its original name and now operates as a wholly owned subsidiary of parent Wells Fargo & Co.

At the time, Acordia executives said that being part of Wells Fargo Insurance—which handles crop, hail, multiperil, credit life and annuity products, as well as sales of personal lines products via the bank's Web site—was challenging and confusing from a marketing perspective.

The reorganization was "an effort on the part of Wells Fargo to make sure Acordia—for our own purposes and for the market—maintained its own identity," said David Zuercher, Acordia's chairman and Wells Fargo's executive vp and head of the international and insurance services group in San Francisco. "I think in that regard, it's been both seamless and very positive for our business."

Following the change, he said, the bank and the broker are aligned to execute more quickly the primary goal their union: to cross sell financial service products to their middle-market clients.

"The big benefit so far this year is the amount of cross-selling activity that is occurring on an office-by-office basis," Mr. Zuercher said. "We've documented several hundred cases of cross selling that have gone on and much of that has resulted in new business."

'We're still looking to buy, no more or no less than any other broker. But it's very important to us to buy as part of an overall strategic plan of our owners.'

Frank C. Witthun

He noted that Wells Fargo and Acordia view this as a long-term strategy. "The new business we expect to get in the future requires continual effort on the part of everyone to continue to talk and to share prospect names with one another on a referral basis."

Mr. Zuercher said that one of the biggest highlights for him since the May 1, 2001, acquisition has been how well the bank and the broker have been able to work together.

"When you do an acquisition, you're always concerned about how everybody is going to work together on the ground level," Mr. Zuercher said. "We have a very strong working relationship already that's developed between the two."

Although executives say new business growth from cross-selling activity will be more substantive in 2002 and 2003, Acordia did post double-digit revenue growth in 2001.

Brokerage revenues were $480.6 million in 2001, up 17.7% from its 2000 performance and enough to retain the No. 5 spot among *Business Insurance's* ranking of the world's largest brokers. Last year, Wells Fargo Insurance Brokerage Inc.—which reflected Acordia and Wells Fargo Insurance combined on a pro forma basis—ranked as the fifth-largest broker with $610.2 million in brokerage revenue.

Wells Fargo Insurance, now separate from Acordia, reported $156.0 million in brokerage revenue for 2001, making it the 11th-largest broker of U.S. business.

"We had an extremely good year financially," said Frank C. Witthun, president and chief executive officer of Acordia.

He said much of the growth in 2001 was organic, but about 10% came from the inclusion of Wells Fargo Insurance's property/casualty agency operations, which last year merged with some Acordia operations to form a new mountain-west region based in Salt Lake City.

"All those offices came to us as part of Wells, so in a sense we were big in the acquisition game last year, even though they were internally driven," Mr. Witthun said.

Externally, Acordia acquired one property/casualty retail agency in 2001, but worked on four other deals, all of which closed at the beginning of 2002.

Acordia historically has made its mark in the insurance brokerage world by aggressively acquiring smaller retail brokerage operations around the country and building its market share in secondary cities. Although that strategy has propelled Acordia up the ranks of the world's largest brokers, the broker's acquisition strategy now has a new focus, Mr. Witthun said.

"We're still looking to buy, no more or no less than any other broker," he said. "But it's very important for us to buy as part of an overall strategic plan of our owners. They do have a different footprint than we do and there are certain specialties that they have that we are not very large in. So we will be much more focused in terms of making acquisitions that are much more complimentary to the overall

Continued on page 44

Marine Insurance Problems?

We're Ready.

G&M MARINE, INC.

MARINE INSURANCE UNDERWRITERS

www.gmmarine.com

(504) 588-9044

PI 07-22-02 A 44 7/18/02 4:01 PM Page 1

Continued from page 42

business strategy of Wells Fargo," he said.

In addition, "we would be able, because of our parent, to look at much larger deals than we have done in the past," Mr. Witthun added. "There will be some focus to not only look at small agencies, but also to whatever makes sense strategically for the company, regardless of size," he said.

At this time, however, Acordia is not seeking a big international acquisition, despite a growing client base of multinational middle-market companies, executives say.

That is because it is very pleased with a 16-month-old global retail insurance brokerage and risk management services network that it formed through a joint venture with London-based broker Heath Lambert Group (*BI*, April 2, 2001).

Called HLA Global, the network links the two brokers in 55 countries.

"We are very pleased with our relationship with HLA," Mr. Zuercher said. "We think that relationship is additive to our customer base in terms of the quality of service a client we refer into the HLA network would receive from a well-established broker in some other country."

Mr. Witthun added: "We consider ourselves a global broker even though we don't own anything outside North America. Right now, I really feel strongly that we have the best of both worlds, and we'd like to keep it that way if we can."

As such, Acordia continues to focus on growing its international expertise to serve HLA clients and win new ones.

"We've had some very good early successes with some international clients, both Europe-based with U.S. operations as well as those in the U.S. with overseas operations," said Charles L. Ruoff, senior vp and chief marketing officer, speaking of HLA Global.

"More and more of our people are becoming internationally qualified," he said. "They are becoming more knowledgeable about requirements overseas and building relationships with Health Lambert people in different countries. They are really beginning to think and to target business that has international operations that they would not have previously," he said.

As part of its international growth strategy, Acordia hired David Lippincott, a former senior vp in the global insurance services group for Aon Corp. in Chicago, to become international marketing director of HLA Global in January.

In other personnel moves, Acordia in June named Kevin W. Conboy, former senior vp and regional managing director for Acordia's east region in Morristown, N.J., as chief operating officer and executive vp in Chicago. Mr. Conboy, whom Mr. Witthun describes as his "heir apparent," succeeds Robert C. Kent, who retired.

—By Sally Roberts

Save thousands in seconds.

Thousands of dollars. Thousands of hours. And thousands of headaches.

Sagitta Online

How? Just call AMS and sign on to Sagitta Online — the product chosen by six of the seven "Top Brokers"* who made recent automation decisions. In seconds, you'll not only have the power of the Internet, but the power of Sagitta — our most robust management system, designed specifically for large agents, brokers and MGAs — at your fingertips. Literally. And with our subscription-based fee structure, we're reducing both the upfront and ongoing costs of ownership.

Sagitta Online offers customization options not found in other automation products so you can configure the system to meet your company's unique business needs. And our built-in client access lets you service your customers directly over the Internet at a level of efficiency that really pays off. From hosting the Sagitta software and managing the server to troubleshooting problems and maintaining all data, AMS is on the job 24 hours a day, seven days a week. So now you can spend more time with your customers and less time with your system.

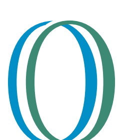
To learn more about Sagitta Online, email us at salesinfo@amsworld.com, call us at 800.444.4813 or visit our Web site at www.ams-services.com. It just takes a couple of seconds.

*According to Business Insurance's 2001 listing of the top 100 brokers and agencies.

Management Systems | AfW | AfW Online | Prime | PS4 Plus | Sagitta | Sagitta Online — www.ams-services.com

Rating Systems | QuoteWorks | QuoteNETWorks | QuoteWorks Solution | NETRater — 800.444.4813

AMS Services, Inc.
The Leader In Insurance Technology



HLF Group P.L.C.

Friary Court, Crutched Friars,
London EC3N 2NP, England
44-207-560-3000; fax: 44-207-560-3502
www.heathlambert.com

Turbulent stock market conditions may have forced HLF Group P.L.C. to postpone indefinitely its planned listing on the London Stock Exchange, but executives remain confident the brokerage will continue to grow.

HLF, which does business as Heath Lambert Group, had planned to offer about £250 million ($387.9 million) in shares on the London exchange. But the group delayed the pricing of the shares recently, citing uncertain stock market conditions, and then called off the initial public offering early last week.

The share offering would have given Heath Lambert financial flexibility, noted David Margrett, the broker's chief executive.

But, even without the IPO, Heath Lambert said it is poised to continue its development since the merger of Heath Group P.L.C. and Lambert Fenchurch Group P.L.C. three years ago. The brokerage indicated it intends to continue to explore a stock listing in the future.

"The group's record results highlight our leading market position and the strength of our U.K. and international business," said David Margrett, chief executive of the group. "We have established a strong platform which I believe will generate significant growth for the future," Mr. Margrett said in announcing the group's results earlier this year. "I believe this growth will be accelerated by a stock exchange listing," he added. But he later said that although an IPO had been seen as the next stage in the group's development, and that it was "obviously frustrating when the stock market conspires against you," the postponement of the stock exchange listing would not hamper the group's ability to grow.

A long-term reorganization of the group is now largely complete, Mr. Margrett said. Heath Lambert has not changed its structure outside the United Kingdom, but over the last fiscal year, the brokerage split its U.K. operations into three divisions. Those are: marine/aviation; business solutions, which encompasses the broker's book of large corporate clients; and business services, which handles smaller, high-volume accounts.

Heath Lambert had always planned to list on the stock exchange, said William Wilks, development director and board member. But he said that the speed of the integration of the businesses following the merger of Heath and Lambert Fenchurch had probably accelerated the IPO timetable. "Both the implementation of the merger and the resulting growth in profits have exceeded expectations," said Mr. Wilks.

A stock market listing would give the group financial flexibility to grow the business, said Mr. Mar-

Continued on page 46

Brokerage Visionary
35 Rising Stars
A Business Insurance Special Report
They're the people to watch. The best and the brightest. The leaders of tomorrow. And on October 7th, as we celebrate our 35th anniversary, Business Insurance will honor 35 Rising Stars in the insurance industry – the vanguard of the next generation.
BI will introduce you to up-and-coming executives – insurers, reinsurers, brokers, risk management & benefit consultants, and claims administrators – who represent some of the best brains behind the business. Meet the men and women who are making an impact and will continue to help shape the market for years to come.
Position your company as forward-thinking and schedule your ad in the only resource our industry relies on for a glimpse of the future … Business Insurance. Call Ken Luker at 212.210.0133 or email at kluker@crain.com for advertising opportunities.
Issue: October 7 • Closing Date: September 25
www.businessinsurance.com
Business Insurance®
NEW YORK: 212.210.0133
LOS ANGELES: 323.370.2456
CHICAGO: 312.649.5276
BOSTON: 617.292.4856

PI 07-22-02 A 46 7/18/02 4:02 PM Page 1

Continued from page 44
grett. And it would give the privately held group a certain amount of freedom.

But when a listing does take place, Heath Lambert's venture capital backers will maintain an investment in the group, explained Mr. Wilks. "This is absolutely not a sell-out by the venture capitalists," he said.

'Insurance is a global product, but the expertise and innovation on which it thrives continue to be firmly established in the U.K.'

David Margrett

Heath Lambert's capital backers "have consistently been very supportive of David Margrett's strategy," added Tim Tookey, treasurer at Heath Lambert. "So, in that sense, we are not surprised that they are with us now and absolutely at one with the senior management team and leaving all their shares in at this stage," he said.

The stock listing is simply one stage in the group's development, he added.

The IPO would have no direct impact on the group's ability to serve buyers and clients, said Mr. Margrett. He said that although a stock market listing would raise the group's profile, this would not really affect insurance buyers, particularly as the group is already substantial in size.

No acquisitions are planned for the immediate future, added Mr. Wilks, but he did not rule out hiring more staff.

Last year was another good one for Heath Lambert, which reported net income of £37.0 million ($52.9 million) for the year ending March 31, 2002, up 108% from the previous year.

Heath Lambert's brokerage revenues for fiscal 2001 were £297.1 million, up 8.2% from the previous year. When converted to dollars using average annual exchange rates, brokerage revenues increased 4.8% last year to $425.4 million, making Heath Lambert the world's seventh-largest broker.

In April, the brokerage was awarded the Queen's Award for Enterprise in International Trade, in recognition of its work in growing its overseas earnings over the past three years. The Queen's Award recognizes business performance in international trade, innovation and sustainable development.

Since the merger of Heath and Lambert three years ago, the company's overseas revenues have grown, reaching £130 million ($186.1 million) for the past year, the group said. "Insurance is a global product, but the expertise and innovation on which it thrives continue to be firmly established in the U.K., which is reflected by the continuing strong overseas demand from companies worldwide for the expertise that Heath Lambert's specialists can provide," said Mr. Margrett.

"We have had a superb performance on our profit growth, and it reflects the superb success of the merger, and the fact that we took all the necessary steps so early. We fully integrated both the brokers and the back-office and accounts within nine months of the merger taking place, and that has created a great impetus in the group going forward. We got it over very quickly, as one needs to do," said Mr. Wilks.

"There is a real momentum developing now in the group, and we will see more of that this year and probably next year. The combination of the broking strengths of Heath and Lambert have been particularly strong in the London market and has meant that there is no class of business in which we can't give very full and very effective service," Mr. Wilks said.

As part of Heath Lambert's efforts to develop its overseas business, a new international retail brokerage and risk management network, HLA Global, was launched last year as a joint venture with Chicago-based broker Acordia Inc.

"The U.S. we have covered very well with our link with Acordia," said Mr. Wilks. "They give full coverage for any of our clients that have operations in the U.S. At the same time, both we and Acordia see a lot of opportunities for us to structure cover for them in London, which may bring extra benefits or economies to Acordia's U.S. clients."

"We have had quite a lot of interest from a number of territories since we launched (HLA Global) in March of last year," said Mr. Tookey. He said the group is "constantly in discussions" with prospective members.

Heath Lambert now has representation in 79 countries worldwide, due, in part, to the development of the HLA Global network.

Asia and continental Europe are two areas where Heath Lambert would like to further increase its presence, according to Mr. Wilks.

The impact of Sept. 11 and the consequent market hardening have caused Heath Lambert's clients to look carefully at their insurance and reinsurance programs, Mr. Tookey said.

And there likely is more rate firming to come, Mr. Wilks predicted. "There was tremendous disruption in the market in the six months after (Sept. 11), meaning that the impact of the premium increases didn't flow through in a uniform way by any means," he said. "I think, as the market settles down, there will probably be more impact" on revenues.

Heath Lambert's record results last year were more a product of the merger of Heath and Lambert than of rate increases in the insurance and reinsurance marketplace after Sept. 11, Mr. Tookey said.

The impact of those rate increases may not be wholly reflected in the broker's latest set of results, he said, but they are affecting clients' buying behavior.

"We have seen quite a significant change in the buying patterns of clients," Mr. Tookey said. "They are revisiting their insurance programs to mitigate some of the impact on them of the increasing rates. So we are seeing changing buying patterns—higher retentions, perhaps buying less absolute coverage. We are obviously working closely with our clients to make sure they are maximizing what coverage they are able to buy within their budgetary constraints."

Captives and alternative risk transfer are two areas in which Heath Lambert is increasingly helping clients, said Mr. Wilks. In March, Heath Lambert set up a new ART division, Heath Lambert Hybrid Solutions, headed by John Ryan, formerly a principal at Tillinghast-Towers Perrin and author of a European Union report on ART.

Sept. 11 has put insurance and risk management much higher on the boardroom agenda for many clients, said Mr. Tookey. "That generates more work and greater responsibility for the broking community. And from that flows opportunity," he said. "But since Sept. 11, the broker has had to work harder to get the client's book of business placed."

—*By Sarah Veysey*

Harbor Capital Advisors, Inc

Financial Consultants to the Insurance Industry

Hilb, Rogal & Hamilton Company *acquired the assets of* InsurMark Group Inc. Reston, VA May 2002	Brown & Brown, Inc. *has acquired the assets of* The Turner Group (RJT, Inc.) Parsippany, NJ May 2002	D. E. Love Associates, Inc. *has acquired* Andrews & Murray Associates, Inc. Southbury, CT February 2002	Arthur J. Gallagher & Co. *has acquired the assets of* Cashan & Company Hammonton, NJ November 2001
Univest Corporation of Pennsylvania *has acquired the assets of the Lansdale, PA division of* The Turner Group (RJT, Inc.) Parsippany, NJ November 2001	Brown & Brown, Inc. *has acquired the assets of* Abrahms Group Benefits, Inc. & Abrahms Life Services, Inc. Newington, CT July 2001	Herbert L. Jamison & Co., L.L.C. *has acquired the assets of* RDT Brokerage Corp. New York, New York July 2001	The Whitmore Group *has acquired the assets of* Club Agency, Inc. Garden City, NY June 2001
H.B. Cowan & Company L.P. *through its acquisition corporation has acquired the assets of* V.R. Williams & Company Winchester, TN February 2001	Hilb, Rogal & Hamilton Company *has acquired the assets of* Palley Simon Associates, Inc. Jenkintown, PA February 2001	Webster Financial Corporation *has acquired* Musante Reihl Associates, Inc. Cheshire, CT January 2001	Hilb, Rogal & Hamilton Company *has acquired* Insurance One, Inc. Rockville, MD October 2000

M&A Representation Agency Appraisals Consulting/Perpetuation/Operations/Markets

www.harborcapitaladvisors.com

800-858-2732

New York ▪ San Diego

Business Insurance®
www.businessinsurance.com

• SERVICES •

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint on their own, material appearing in the newsmagazine. For information, call or fax:

312/ 649-5319
Fax: 312/ 280-3174

CB 07-22-02 A 47 7/18/02 1:42 PM Page 1

Alexander Forbes Ltd.

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

The hardened insurance market and corporations' changing perceptions of risk are creating opportunities for Alexander Forbes Ltd., executives of the South African broker say.

The hard market, which began early last year and accelerated in the aftermath of Sept. 11, is boosting Alexander Forbes' revenues, which are largely commission-based, said Deputy Group Chief Executive John Percy-Davis. And market conditions have had a "huge impact" on the brokerage business generally, he said, noting that risks that once were easily placed now may be struggling to find capacity.

The Sept. 11 terrorist attacks, the current global economic downturn and the collapse of some major corporations have changed perceptions of—and appetite for—risk among both sellers and buyers of insurance, said Mr. Percy-Davis. "Underwriters are becoming more risk-averse, while clients are having to absorb more risk," he said, noting that the changed environment presents brokers with a "very fertile area" as risk advisers.

Chief Executive Officer Graeme Kerrigan said that a growing interest in enterprisewide risk management and increasing concerns over corporate governance are creating opportunities for brokers to grow. Corporate governance now has a higher profile in South Africa, in part because of the April introduction of risk reporting requirements, said Mr. Kerrigan. Those requirements, which are similar to the so-called Turnbull regulations in the United Kingdom, require publicly listed companies to disclose their operational risks.

"There is a bigger focus on how companies are run and how management deals with risk," he said.

Although this change has brought management consultants and auditing firms into competition with brokers, it offers brokers an opportunity to enhance their risk management consulting services, Mr. Kerrigan said.

"Brokers have a good track record in advising clients on risk issues and now are moving away from just addressing physical risks to also advising on business risks," said Mr. Kerrigan.

Alexander Forbes last year held its previous position as the world's eighth-largest broker.

For the year ended March 31, 2002, the company's gross revenues increased 33.6% to 4.30 billion rand. In dollar terms, though revenues rose only 3.6% to $454.9 million. Brokerage revenues in Alexander Forbes' home currency, meanwhile, grew to 3.86 billion rand, up 36.7% over the prior year. The rise in dollar terms was 6.1%, with brokerage revenues increasing to $408.9 million.

Of Alexander Forbes' total brokerage revenues, 59% came from commercial retail brokerage. Non-U.S. clients account for nearly all—97.7%—of the brokerage's business.

Pretax profits, meanwhile, increased to 948 million rand, up 32.0%. In dollar terms, the increase was 2.6%, to $100.5 million.

Mr. Kerrigan attributed the results last year to a combination of "organic growth in our core Financial Services and Risk Services businesses in South Africa and the U.K., the benefits of acquisitions made in the previous year and the effect of the rand devaluation on hard currency earnings."

'Brokers have a good track record in advising clients on risk issues and are now moving away from just addressing physical risks to also advising on business risks.'

Graeme Kerrigan

"We had a very good year last year, despite difficult trading conditions, and both our risk services and benefit consulting operations put in very strong performances," Mr. Kerrigan said.

Although Alexander Forbes' executives last year expressed concerns that the company could become vulnerable to takeover, those fears appear to have dimmed somewhat. Although executives were worried that Alexander Forbes would not have access to the funds it needed to grow by acquisition, Mr. Percy-Davis said that the company now has sufficient capital to meet its "medium-term" needs.

Alexander Forbes' stock, which trades on JSE Securities Exchange South Africa, closed at 1,523 rand ($152.90) per share July 12. The 52-week high and low were 1,730 rand ($173.69) and 1,220 rand ($122.37), respectively.

Alexander Forbes has a geographically based operational structure divided into risk services and financial services. About 42% of the company's revenues come from its African operations, while 50% are derived from business in the United Kingdom and continental Europe.

In addition to offering insurance brokerage and risk management consulting services, Alexander Forbes Risk Services arranges alternative risk financing vehicles and has its own cell captive, Guardrisk.

Alexander Forbes estimates that in South Africa, the brokerage's principal market, more than 60% the country's 100 largest companies are Alexander Forbes clients.

In the United Kingdom, the Risk Services division has grown dramatically in the last five years, following its 1997 takeover of Nelson Hurst Ltd. and later acquisitions of the retail and specialty broker Bradstock Group P.L.C. and professional liability broker Alfred Blackmore Group Ltd. As a result of these acquisitions, Alexander Forbes says it has become a key player in U.K. errors and omissions brokerage.

In addition, Alexander Forbes minority investment in safety, health and environmental risk management consulting firm National Britannia Group Ltd. has allowed the brokerage to expand its offerings, particularly in the area of software-based risk reporting tools.

In Africa, Alexander Forbes' Financial Services operation provides consulting, actuarial and administration services for retirement funds, as well as consulting on medical aid, disability and health management issues. The division also provides personal financial products to retirement fund members, among other services.

Employee benefits and pension administration services also make up a growing part of the company's Financial Services division in the United Kingdom.

In addition, Alexander Forbes in June acquired 60% of U.K. consulting actuary Lane Clark & Peacock. LCP, on which is one of the largest actuarial consulting firms in the United Kingdom, "is a very important bridgehead" in Alexander Forbes' efforts to grow in the areas of actuarial consulting, employee benefits and pension services, Mr. Percy-Davis said.

Outside its core U.K. and African markets, Alexander Forbes provides services through subsidiaries in Hong Kong, Singapore and Thailand and through affiliates in Indonesia, Malaysia, the Philippines and South Korea. In addition, the brokerage is active in Latin America, with operations in Argentina, Brazil, Mexico, Uruguay and Venezuela.

"We will continue to look for acquisitions to increase our critical mass in both Asia and Latin America," Mr. Percy-Davis said.

Despite its size and international reach, Alexander Forbes still has no operations in the United States. It does, however, act as a wholesaler for U.S. retail brokers.

"We have a very strong presence with independent brokers in the U.S., placing risks into London, but we have avoided a retail risk presence in the U.S. partly because we do not want to compete with our U.S. clients," said Mr. Kerrigan.

However, the company is looking "actively and positively" at setting up a benefits operation in the United States, he said, noting that "with the U.S. economy cooling, the cost of acquisition may be less.''

In general, the focus of expansion and acquisition efforts in the near future likely will be the benefits field, said Mr. Kerrigan. He noted that the company has focused on "reasonably priced" risk-based acquisitions during the last two or three years. Risk-focused businesses, though, are now "much more highly valued," he said.

The broker also is considering forming an office in Bermuda as a result of the recent influx of capital into the Bermuda market, Mr. Percy-Davis said.

Incoming CEO Rael Gordon, who is moving to London from Johannesburg to take the reins from Mr. Kerrigan at the end of the year, said he is excited about the prospect of leading a business that "is well-diversified and in great shape."

—By Carolyn Aldred

You're at risk.

We Can Help.

We're AIG eBusiness Risk Solutions, a division of the American International Companies® dedicated to managing and mitigating Internet risks.

Our insurance solutions:

The **AIG netAdvantage Suite®** — which insures a wide array of risks associated with your specific Internet activities, from simple web presence to Internet professional services to full e-commerce activity

AIGTradeCredit.com® — which facilitates fast, accurate management of accounts receivables backed by a powerful combination of credit insurance and real-time credit monitoring of your customers

WebMerchantGuard℠ — which helps protect Internet merchants against fraudulent online purchases

AIG Personal Internet Identity Coverages — which helps consumers recover from online and offline identity theft

And we have many more solutions in development.

We're the cyber-risk experts you would expect to find at the member companies of American International Group, Inc., a world leader in insurance and financial services. We offer our clients the security of unsurpassed insurer financial strength. The AIG Companies hold the highest ratings from the industry's principal rating agencies.

AIG, an organization with a clear vision of the newest risks confronting the world's businesses. . .and the insight needed to manage them globally.

To learn more, call 1-866-826-4974 or contact your insurance broker. Visit **www.aigebrs.com.**

Insurance coverage and services provided by member companies of American International Group, Inc. The description herein is a summary only. It does not include all terms, conditions and exclusions of the policies described. Please refer to the actual policies for complete details of coverage and exclusions. Coverage may not be available in all states. Issuance of coverage is subject to underwriting. Non insurance products may be provided through independent third parties.

Brown & Brown Inc.

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

A year of record growth fueled by acquisitions and firming market conditions propelled Brown & Brown Inc. into the ranks of the world's largest brokerages.

And the fiercely competitive Daytona Beach, Fla.-based brokerage isn't slowing down in 2002. More acquisitions during the first half of the year paired with a continued focus on internal growth are generating more revenue and income gains.

In 2001, Brown & Brown's gross revenues were $365.0 million, up 74.1% over 2000. Brokerage revenues were $359.7 million, up 75.6% from the year before and earning Brown & Brown the No. 9 spot in *Business Insurance's* ranking of the world's largest brokers.

Net income for 2001 was $53.9 million, up 64.4%.

"Historically, we have grown very rapidly," said J. Hyatt Brown, president and chief executive officer of Brown & Brown. He pointed out that by some standards, the brokerage's growth in 2001 was its most impressive.

"Our corporate goal that we set in 1993 was to grow our earnings per share by 15% every year, ad infinitum. From 1993 to 2000, prices were going down; it was very challenging but we did it," he said. Last year, earnings per share rose by 46% to 85 cents. "That's the best year in the history of our company."

Through the first three months of this year, gross revenues reached $111 million, up from $89 million the year before. Net income for this year's first quarter reached $20.2 million, compared with $12.9 million in 2001.

In 2001, Brown & Brown acquired two dozen agencies of various sizes, several agency books of business and the outstanding stock of two other agencies. Last year's acquisitions generated around $140 million in annualized revenue, according to Mr. Brown. At the end of the year, Brown & Brown had 140 offices—including 117 retail brokerage offices—in 28 states.

'At our annual meeting, the people who excel are recognized and rewarded both financially and psychologically. ... The suggestion is, "Can you best this model next year?"'

J. Hyatt Brown

Acquiring companies is nothing new for Brown & Brown. By the end of last year, the brokerage had completed 86 acquisitions since 1993, the year it merged with Poe & Associates Inc. in Tampa, Fla. The company's name in 1999 changed to Brown & Brown from Poe & Brown.

Mr. Brown, who also serves as chairman of the company's board, said the pace of acquisitions is not expected to slow this year. "This year, we've had several agency acquisitions during the first five months," he noted. "And the pipeline continues to be as full as it's ever been."

Helping fund this year's acquisitions will be a portion of $150 million raised in a stock offering completed in March. Brown & Brown shares, which are traded on the New York Stock Exchange, closed at $27.28 on July 12. As of that date, its 52-week high was $28.36 and a low of $26.80.

Acquisitions in 2001 were weighted toward the retail end of Brown & Brown's business and explain why the percentage of gross revenue related to commercial retail business amounted to 68% of its total, up from 60% in 2000. Revenues from its wholesale brokerage as a percent of overall business fell to 14% last year from 20% in 2000.

Even as Brown & Brown continues to gobble up agencies, it is mindful of growing internally, according to Mr. Brown. "For the first time in a while," that growth was significant last year, he said, reaching around 8%. In the first quarter of this year, internal growth reached 13%.

The brokerage's target account is one that generates annual commissions and fees of $2,500 to $250,000. Among its client list are a number of Fortune 1000 clients, but Brown & Brown considers the middle-market its forte.

The brokerage has staked its claim on middle-market accounts, because, as Mr. Brown frankly acknowledges: "That's where the money is." Most of the brokerage's revenue comes from commissions and Brown & Brown likes to sign up growing companies as clients, as they will need increasing amounts of property/casualty and employee benefits coverage and services as their size increases.

The brokerage divides its business into four segments:

- The Brokerage Division markets excess and surplus lines commercial insurance and reinsurance. As part of this segment, last fall it formed a new reinsurance intermediary, Brown & Brown Re, based Farmington, Conn.
- The Retail Division offers a broad range of property/casualty products to commercial and personal lines policyholders.
- The National Division provides professional liability and specialty coverage.
- The Services Division provides third-party claims administration and managed health care services.

The competition for middle-market business is fierce, Mr. Brown said, and that means Brown & Brown's producers have to rise to the challenge.

The competitive market "drives people to new levels, if you are a highly competitive person," he said.

There is no misunderstanding among the Brown & Brown producer ranks that they are expected to produce. As stated in the company's annual report, the brokerage looks for high-quality people who can thrive in its aggressive "hunt if you want to eat" culture.

The brokerage has relied on an organizational model that it put in place in 1982 to keep its producers motivated, Mr. Brown explained. "Because of our decentralized model, our people are very, very challenged on the ground," he said.

The company is structured so that each of its offices is a profit center. "Each profit center is weighed against the others on a monthly and quarterly basis," Mr. Brown noted. In addition, each producer is ranked according to his or her performance. "At our annual meeting, the people who excel are recognized and rewarded both financially and psychologically. They are held up as models. The suggestion is, 'Can you best this model next year?'"

Profit center managers feel the heat as well, with monetary rewards for decisions that enhance profitability, or bonus penalties for moves that negatively impact profits. Annual sales meetings spotlight profit centers that fall short and those locations are encouraged to improve their results.

The system produces a kind of best-practices environment, Mr. Brown said, in which employees can establish performance benchmarks. "For our people who are in the system, it's a way of life," he said.

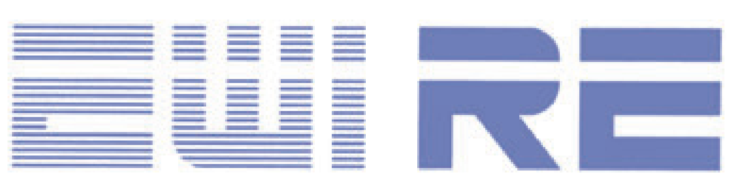
Mr. Brown said a key strength has been the brokerage's knack for hiring good producers. "It is our ability to continue to attract, challenge and compensate very high quality people," he remarked. The brokerage looks for recent college graduates or people in other careers who want the challenge that Brown &

Continued on next page

Products & Services Guide

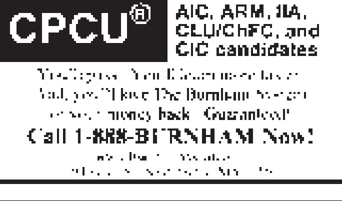
*To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@crain.com*

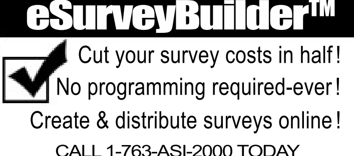
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising



TREATY REINSURANCE
INTERMEDIARIES
CONSULTANTS
AND
INSURANCE BROKERS

TEL: (972) 866-6815 FAX: (972) 866-6801
WEBSITE: WWW.EWIREINSURANCE.COM





Any
Risk Management
Questions?
Ask
www.GeorgeLHead.com

Mind Your Business

Advertise in *BI*'s
Products & Services Guide
Call
(312) 649-5340
Business Insurance

BI Get Results! Advertise In Our Next Issue: July 29 Closing: July 23 BI

Continued from previous page

Brown offers.

Because of its acquisitions, Brown & Brown's employee count jumped 81% to 2,921 at year end, and the number of retail brokerage offices nearly tripled. As a result of the expansion, Mr. Brown acknowledged that the brokerage is challenged in absorbing new personnel into its culture.

"When we bring in new people, if they are not at the same level as our other offices, it takes a while to get them up and cranking," he said.

—By Michael Bradford

10 HRH

Hilb, Rogal & Hamilton Co.

4951 Lake Brook Drive, Suite 500,
Glen Allen, Va. 23060
804-747-6500; fax: 804-747-6046
www.hrh.com

Things are looking up for Hilb Rogal & Hamilton Co. in more ways than one.

The Glen Allen, Va.-based broker is continuing to grow through acquisitions and new ventures, holding on to its 10th-place ranking on *Business Insurance's* list of the world's 10 largest brokerages.

And, in order to maintain and improve upon its past success, HRH has begun looking further up the risk management ladder for business. HRH has traditionally positioned itself as the broker for the middle market, for businesses that do not have full-time risk managers. It's now adding smaller risk management accounts to its list of target markets, said HRH Chairman and Chief Executive Officer Andrew Rogal.

'One of the main strengths of our company is we have a very detailed business plan and we work that plan religiously, and that probably is the key to our success.'

Martin L. Vaughan III

"I think one of the things we find most interesting right now is the enormous opportunity that exists in the top tier of middle market, and our risk managers de facto or de jure," said Mr. Rogal. "We are believers in the proposition that that group of people is underserviced and underoptioned."

A key part of that strategy was the acquisition of Hobbs Group of Atlanta, which was completed on July 1 (*BI*, May 20). Hobbs, which was the 17th-largest broker of U.S. business in 2001, derived about 70% of its revenue from large accounts that generated at least $100,000 in commissions and fees.

Other notable acquisitions include Columbus, Ohio-based Berwanger Overmyer Associates, the largest independent insurance broker in central Ohio; the Dunlap Corp. of Auburn, Maine; and Dulaney, Johnson & Priest of Wichita, Kan. Before closing the Hobbs acquisition, HRH had more than 80 offices, organized into five geographic regions. Hobbs has 27 offices.

Tim Korman, executive vp-finance and administration, said that "2001 was the year we really did execute an aggressive acquisition program." Mr. Korman added, though, that HRH has "never been driven by pure geography." Instead, he said, the company seeks acquisitions, opportunities and prospects that "will enable us to be the premier midmarket intermediary."

Premium volume increased to approximately $3.30 billion last year, up more than 17.8% over 2000. Brokerage revenues, which accounted for about 99.2% of HRH's total corporate gross revenues in 2001, rose almost 25.9%, to nearly $327.6 million, last year. Operating income grew 48.4%, to about $32.3 million.

The trend is continuing into 2002, noted Martin L. Vaughan III, HRH's president and chief operating officer. "We're having a blockbuster year," Mr. Vaughan said. "Our revenues in the first quarter were up about 28%, and profits were up 35%. Our organic growth was 9.3% same store—we're picking up some strong momentum there. We couldn't be more pleased."

"We're getting some help, obviously, from the market. In prior years, we had the wind in our face because of the rate declines. But we're gaining market share, our sales culture is maturing, we've concentrated on improving our approach to prospects," Mr. Vaughan said.

"One of the main strengths of our company is we have a very detailed business plan and we work the plan religiously, and that probably is the key to our success," he said. HRH has followed an internal best-practices program for more than two years to increase the effectiveness of its sales culture and manage costs.

Mr. Rogal said that the company's focus is "to move strategically into the higher end of the midmarket. We not only want to pursue the market we're in and improve what we do there, but to move forcefully into what we see as a very underserviced portion of the marketplace."

Mr. Rogal said he sees "enormous opportunity" for HRH "at the lower end of the risk management market."

Mr. Vaughan said HRH's strategic plan has identified a number of areas in which the brokerage will concentrate and seek to grow. This includes the alternative risk area, "which we think is going to become even more important as we go forward."

"We don't want to sell our current capabilities short" in providing alternative risk services, Mr. Vaughan said. Instead, HRH is trying to enhance those abilities to better move up into the risk management arena, he said

Mr. Vaughan said HRH would also like to get more involved in reinsurance brokerage, an area that he said dovetails into HRH's general agency work and program development. He said HRH would also like to expand in-house excess and surplus lines capabilities.

The growth in capabilities means an enhanced commitment to personnel, HRH executives point out.

"A key advantage we have right now is the ability to attract that talent to our company," Mr. Vaughan said. When making acquisitions, "we're not buying revenue streams; we're trying to acquire the talent that will take us to the next level," he said.

'We not only want to pursue the market we're in and improve what we do there, but to move forcefully into what we see as an underserviced portion of the marketplace.'

Andrew Rogal

Mr. Vaughan added that "we have absolutely no initiatives going on" in regard to cost-cutting or hiring freezes. In fact, he said, HRH has "budgeted for more than $5 million in additional investments in people," in the form of salaries for new hires. This includes loss control professionals, claims management experts and others whose talents are needed in the lower tier of the risk management market, he said.

"It's not a time to run too thin," Mr. Rogal said.

The company prides itself on not having "a lot of centralized structure," Mr. Rogal said. HRH's decentralized approach allows it "to maintain the localized personal commitment and identification with communities and business people" in them as it makes acquisitions, he said.

The only major change to the company's top management came with the acquisition of the Hobbs Group, said Mr. Rogal. Following the acquisition, Hobbs President and CEO Tom Golub became an HRH executive vp and a member of its board of directors.

The company, which trades on the New York Stock Exchange, announced a two-for-one stock split, effective Dec. 31, 2001, late last year. It has since increased its quarterly dividend as well. On July 12, its stock closed at $40.48 a share, with an annual high of $46.15 and a low of $20.55.

—By Mark A. Hofmann

Business Insurance®
www.businessinsurance.com
• SERVICES •

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

A hacker, virus or cyberattack can be as lethal as a fire, flood or tornado.

Especially when you're not insured.

Think conventional property and CGL policies cover internet-related risks? Think again. Those policies are generally designed for brick-and-mortar liabilities. **The AIG netAdvantage Suite®** is designed for the full gamut of Internet risks. Built to address risks arising from e-mail viruses, hacker attacks, credit card theft, cyber-extortion, cyber terrorism and more. With the flexibility to help zero-in on precisely the risks of your particular cyber-activities. The AIG netAdvantage Suite® can even include innovative risk management services, like free on-site security assessments, provided by the expert firms of AIG's Technology Alliance, which help companies identify, manage and mitigate Internet risks.

This is exactly what you would expect from member companies of American International Group, Inc. (AIG), world leaders in insurance and financial services. We offer our clients the security of unsurpassed insurer financial strength. AIG Companies hold the highest ratings from the industry's principal ratings agencies.

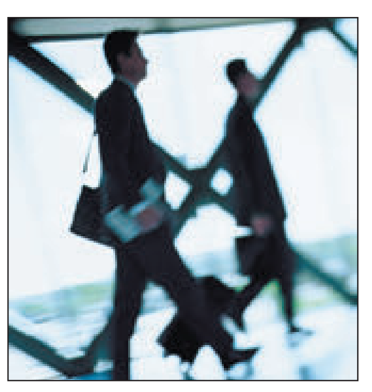
So, if you've been wondering how your 21st century business can address 21st century perils, you can find an answer here.

For more information, call 1-866-826-4974 or contact your insurance broker. www.aignetadvantage.com

The AIG netAdvantage Suite® is available with limits up to $25,000,000.
Insurance coverage and services provided by members of American International Group, Inc. Issuance of coverage is subject to underwriting.
Please refer to the actual policy for a complete description of scope and limitations of coverage.

BI 07-22-02 A 50 7/19/02 4:04 PM Page 1

Products & Services



AIG adds travel cover to D&O insurance

NEW YORK—American International Group Inc. has enhanced its directors, officers and corporate liability insurance to include business travel accident coverage and travel assistance services.

The endorsement covers directors and officers traveling to or from business meetings and during meetings. It can be expanded to cover accidents at any time, during business or pleasure travel.

Benefits are payable up to $250,000 per person, up to an aggregate limit of $2.5 million. Benefits, which are provided in addition to workers compensation or other insurance, are paid directly to the director, officer or beneficiary.

Travel services include emergency, legal, medical and pre-trip or in-route assistance. Help with lost baggage and passports, for example, is among the offerings.

More information is available from insurance brokers and local AIG offices or by e-mail at *managementliability@aig.com.*

Medical evaluations for disabilities offered

ROCKFORD, Ill.—Network Medical Review Co. Ltd. has introduced Comprehensive Peer Assessment to provide employers with objective opinions on employee disability.

The service is a "thorough and objective medical evaluation of disability, workers compensation or medical insurance claims," Dr. Robert C. Porter, the founder of Rockford, Ill.-based NMR, said in a statement.

"Our doctors who complete these assessments use medical literature, research reports and specific tests to determine the validity of the diagnosis, treatment or work loss," Mr. Porter said. "At NMR, we specialize in this type of evidence-based evaluation, which relies on national standards of care and the best practices of specific medical specialties instead of the opinion of one doctor."

The program uses certified physicians trained in occupational medicine, physical medicine and rehabilitation, as well as those trained in other specialties, if needed, to perform assessments.

More information is available from Network Medical Review at 815-399-5180.

Aetna introduces plan for middle market

HARTFORD, Conn.—Aetna Inc. is offering a fully insured health plan for middle-market employers.

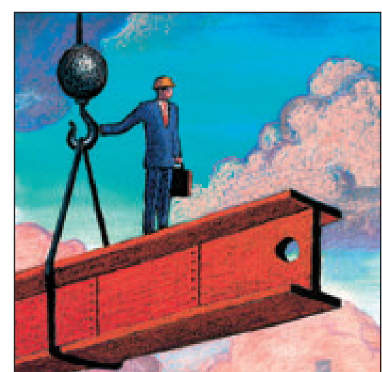
The Hartford, Conn.-based insurer's Aetna HealthFund offers the comprehensive coverage of a traditional health plan and a fund benefit that allows members to choose the covered medical services they want from their health care professionals.

First-dollar coverage is available for preventive services. Any unused dollars in the fund can be carried over to provide additional plan coverage the following year.

The plan offers a variety of deductible and coinsurance options and is available to employers with as few as 51 eligible employees.

"We've also intensified our focus on helping our members understand their health care options and get the most value from their plan," said a statement by C. Timothy Brown, senior vp, Aetna Select and Key Accounts. "That means if members want to check the status of their health fund, track a claim, choose a new physician or research a health care issue, they can accomplish all that and more by simply logging on to Aetna Navigator."

Information is available at *www.aetna.com.*



IRMI book available on design-build risks

DALLAS—International Risk Management Institute Inc. has released "Design-Build Risk and Insurance," a book that explains how to handle risk management and coverage concerns related to design-build construction projects.

"Design-build projects present myriad new risks," said Ann Hickman, editor and contributing author of the book, in a statement. "Contractors who act as design-builders must be on top of issues such as design liability, performance guarantees, professional licensing requirements, ownership of design documents and a variety of other risks that they do not typically face in traditional construction. Failure to recognize and plan for these risks can be devastating to a contractor."

The price of the book is $49. Ordering information is available at *www.irmi.com/products* or by calling 800-827-4242. In Dallas, call 972-960-7693.

Benefit consultants directory deadline approaches

Business Insurance will publish its annual directory of employee benefit consultants in conjunction with the Aug. 12 issue. The issue will include a Spotlight report on employee benefits and a chart ranking the top 10 employee benefit consultants.

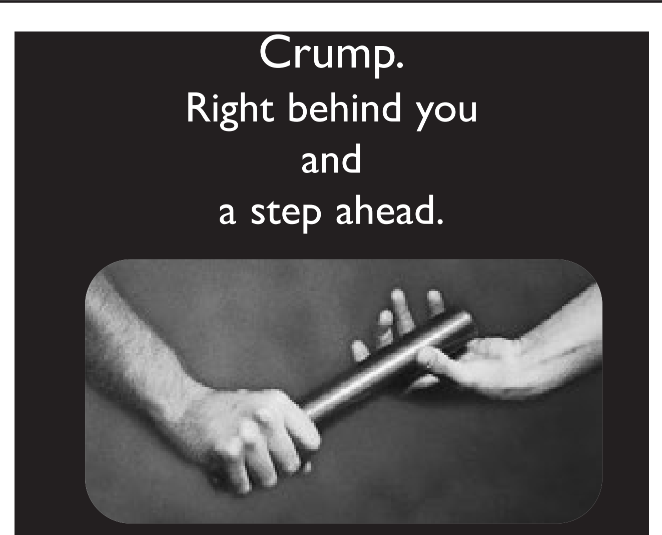
The directory will be available to subscribers online, as well as included in *BI*'s 2002/2003 Market Source Book, a special printed compilation of all directories and rankings that will be published at year end.

The directory is an editorial service; there is no charge to be included. Companies must simply submit a completed questionnaire by the extended deadline of Aug. 2.

You are eligible if your company provides benefit consulting, which is defined as providing advice on benefit issues on a fee-for-service basis. This would not include brokering insurance, claims administration, compensation consulting or other general consulting unrelated to employee benefits.

To be included, you must provide your gross revenues from benefit consulting for 2000 and 2001.

If your company provides these services and you have not received a questionnaire, please request one by calling Directory Editor Kevin Edison at 312-649-5279, e-mailing kedison@crain.com, or by downloading the survey from the directory area of our Web site at *www.businessinsurance.com.*

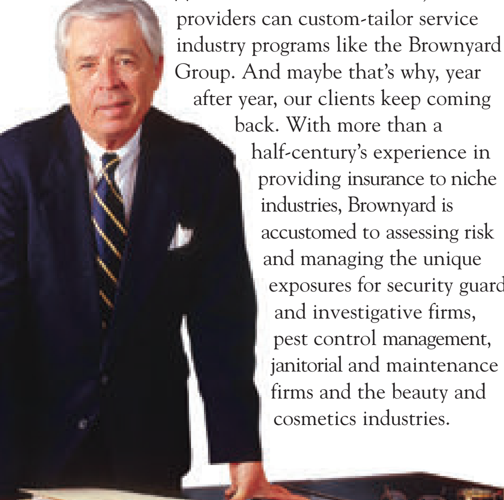


Crump is right behind you for all your hard-to-place coverage needs. But we also stay out front of emerging specialty insurance requirements and issues. So call Crump. Our powerful national network offers access to more than 100 leading domestic and international markets. And our responsive service and expertise will be with you all the way.

Call **1-800-888-7126** today.
On the web at **www.crumpins.com**

Crump is a member of the Schinnerer Group.

"It's not that our competitors won't do what we do. It's just that they can't."



When it comes to insurance, few providers can custom-tailor service industry programs like the Brownyard Group. And maybe that's why, year after year, our clients keep coming back. With more than a half-century's experience in providing insurance to niche industries, Brownyard is accustomed to assessing risk and managing the unique exposures for security guard and investigative firms, pest control management, janitorial and maintenance firms and the beauty and cosmetics industries.

And with Brownyard Claims Management, Inc. (BCM) on the premises, we're able to expedite claims and respond to client needs quickly and efficiently. For all of these reasons and more, the Brownyard Group may provide your clients with the insurance coverage they need.

But don't take our word for it. Ask any one of thousands of service organizations we insure across the country.

For More Information,
Call (800) 645-5820

Brownguard
Security Guard Insurance Program

Pest Control Insurance Program

ServiShield
Janitorial Insurance Program

Beauty and Cosmetics Insurance Program

BROWNYARD GROUP, INC.
21 Maple Avenue, Box CN9175, Bay Shore, NY 11706-9175
Phone: (631) 666-5050 • Fax: (631) 666-5723
www.brownyard.com

Pioneers in the past. Innovators for the future.™

Business Insurance
New Subscriptions
You can now subscribe to our publication over the Web.
Simply fill out our subscription form
and we will get your first issue to you right away.

Moving? Change of address? New job?
If you're leaving your current location, make sure you don't leave behind the late-breaking, agenda-setting news
that helps you stay on top of your business.
You can change your information with us online, immediately.

Billing or renewal inquiry?
Verify your subscription details or pay an invoice.
If you receive a notice from us after you have paid,
it is likely due to correspondence crossing in the mail.
However, if you receive a second notice after you have paid,
contact us and include a copy of both sides of your canceled check.
For more information about a subscription,
please contact the customer service department at

1-888-446-1422

www.businessinsurance.com

Lloyd's releases reform proposals

By SARAH VEYSEY

LONDON—Lloyd's of London has completed an initial consultation period for its market reform proposals and has circulated details of the plans to the entire market.

The proposals, which are designed to modernize Lloyd's, include the creation of a franchising system for Lloyd's businesses; a move to annual accounting, away from Lloyd's three-year system; and an end to unlimited-liability underwriting.

Lloyd's also is considering the introduction of so-called "limited tenancy" capital, which would allow individuals or companies to buy capacity for a fixed term. At the end of the term, capacity would revert to a managing agent.

The proposals, put forward by a strategy group formed by Lloyd's Chairman Sax Riley, were first circulated on a limited basis in January. A revised set of proposals was published Friday, and the 16,000 business and individuals operating in the market have until Aug. 16 to consider the plans. Market participants will vote on the proposals at an extraordinary general meeting slated for Sept. 12.

'In the past, a minority of poor performers have run up damaging losses, and we all paid a heavy price.'

Nick Prettejohn

At the center of the proposals "is the creation of a new franchise, a new partnership between the businesses in the market and Lloyd's, which runs the market," Nick Prettejohn, chief executive of Lloyd's, said in a statement. "In the past, a minority of poor performers have run up damaging losses, and we all paid a heavy price."

Under the franchise proposal, which aims to improve oversight of market participants, managing agents would become Lloyd's franchisees and would have to operate within guidelines set by the Lloyd's franchise board. That board, which would replace the existing regulatory board, would be headed by a franchise performance director, Lloyd's said. As franchiser, Lloyd's

See LLOYD'S/page 54

PHOTO: AFP

An October 2001 crash involving Sweden's Scandinavian Airlines System contributed to a 15% premium hike when the airline renewed its aviation coverage in January.

Rate hikes add to airline's troubles

By GERARD O'DWYER

STOCKHOLM, Sweden—Increased insurance and security costs are contributing to significant financial problems for Nordic airline Scandinavian Airlines System.

Spiraling costs for aviation insurance and other insurance coverages and the increased security measures that have been implemented by many airlines since the Sept. 11 terrorist attacks have increased losses at the Stockholm, Sweden-based airline to $2 million per day.

"SAS has not managed the higher commercial insurance costs charged to airlines since Sept. 11 very well. The airline has been consumed with growth through acquisitions, rather than focusing on reducing its overhead. Now, it finds itself in a very serious financial situation," said Frode Steen, an aviation industry economist at the Bergen School of Economics in Oslo, Norway.

The airline's main insurers—Storebrand of Oslo; Skandia Forsikring of Stockholm; Copenhagen Re Danmark a/s of Copenhagen, Denmark; Codan Forsikring a/s of Copenhagen; Trygg-Hansa Sverige of Stockholm; and Zurich Sweden Ab of Stockholm—all increased premiums on fleet, property and facility management operations on Jan. 1, according to SAS Chief Executive Officer Jorgen Lindegaard.

The airline's commercial aviation insurance bill rose by 15% in January. Of this, 8% relates directly to a plane crash at Linate Airport in Milan, Italy, on Oct. 8, 2001. In that crash, an SAS plane collided with a light aircraft, killing 118.

Despite Scandinavian government-backed terrorism insurance programs that were established shortly after Sept. 11, SAS's total insurance costs increased 20%, to $500 million, in 2002. Premium costs have risen across the spectrum of SAS's group operations, Mr. Lindegaard said.

In addition to higher premi-

See SAS/page 53

Insulation concerns spark cover crunch

Flammability of paneling at issue

By SARAH VEYSEY

LONDON—The widespread use by the U.K. food industry of a form of insulated paneling that also is highly flammable is being partly blamed for more costly and restricted property insurance.

As a result, risk managers for U.K. food companies that use the paneling are considering alternatives to traditional insurance to keep down their risk financing costs. They say that, despite the fire risk, the cost of removing and replacing the paneling would be prohibitive for many companies.

The paneling at risk contains polystyrene covered by another material, often plastic. It is widely used in food-storage facilities because of its insulating properties and its relatively low cost.

But when the panel catches fire, it burns slowly and is difficult to extinguish, according to Duncan Swift, the head of the agribusiness recovery group at London-based consultant Grant Thornton.

"Any construction material would burn," Mr. Swift said, noting that composite paneling is not necessarily more flammable that other materials. But while the material in the paneling core burns slowly, he said, it has been found to burn intensely.

Therefore, while immediate loss of life is not an issue because there is ample time to evacuate buildings, problems arise when firefighters have to re-enter buildings to attempt to extinguish fires. This is a risk to firefighters' lives and has prompted the Fire Brigade—the U.K. fire department—to decide to contain, rather than extinguish, fires in which composite paneling is present.

That, in turn, raises the potential loss exposure on insured properties.

Mr. Swift explained that food suppliers in the United Kingdom frequently use composite paneling because it is "economical to install, an excellent insulator and very practical from a hygiene point of view." He noted that the material complies with U.K. hygiene regulations on the storage of food.

The Fire Brigade's policy on composite paneling "has had enormous repercussions on the insurance industry," and it has, in turn, forced insurers to either send premiums "through the roof" or to refuse to cover affected business altogether, Mr. Swift said.

"Businesses within the food industry are risking their livelihoods by operating in premises they cannot insure," he said.

"The cost of insurance has been exacerbated by the Fire Brigade taking the view—rightly—that they want to contain rather than extinguish fires, which has obviously got an insurance cost implication," Mr. Swift said. "But then you have got the contraction of the insurance market, particularly the reinsurance market, as a result of Sept. 11."

Mr. Swift said this lack of available capacity was exacerbated by the collapse in June last year of Independent Insurance Co. Ltd., which was heavily involved in insuring the U.K. food industry. Circumstances have conspired, he said, to mean that "in certain instances, the insurance cover is not available at all or, if it is, it is either with significantly increased premium or significantly increased excess or both."

Some businesses do not have the capital resources to undertake a replacement of the paneling, Mr. Swift said. "So when (companies) are in that circumstance, they are looking at options of last resort—either low or inadequate cover," he said.

At the recent Assn. of Insurance & Risk Managers annual conference in Birmingham, England, the food industry was described by David Ireland, the chairman of the London-based association, as a sector "ex-

See PANELING/page 53

World Updates

HLF postpones IPO indefinitely

London-based broker HLF Group P.L.C. has postponed its proposed initial public offering because of "current turbulent stock market conditions," a company statement said. HLF Group announced in June its intention to offer about £250 million ($387.9 million) in shares on July 16. Earlier this month, though, the group delayed the pricing of the shares in the light of uncertain stock market conditions, and last week the group decided to call off the IPO indefinitely. David Margrett, HLF's chief executive officer, said an IPO would remain an option for the future.

RI3K to provide data hub for ACLI

London-based information technology provider RI3K is creating a life reinsurance data hub for the Washington-based American Council of Life Insurers. The online hub, which will begin operations by the end of September and become fully operational worldwide within a year, will receive data from cedents and pass the information on to reinsurers in accordance with ACORD data standards. Users of the new online hub will be able to exchange data in a standardized format with just the use of a Web browser.

Kirecon granted direct Lloyd's access

Danish reinsurance broker Kirecon Ltd. has become the first Scandinavian broker to be granted direct access to Lloyd's of London. Kirecon, which has placed business at Lloyd's via London-based intermediaries for 12 years, was given accreditation as a Lloyd's broker on July 17. Kirecon becomes the fifth European broker located outside the United Kingdom to be granted direct access to Lloyd's under new accreditation arrangements introduced in January 2001.

Chaucer Holdings plans share offering

Chaucer Holdings P.L.C., the parent company of Lloyd's managing agency Chaucer Syndicates Ltd., has announced plans to raise £39 million ($61.2 million) through a share offering. The group said investors would be able to buy two new shares for every three they already hold and will have the opportunity to buy 19 units of loan stock for every 88 shares they hold. The group said the capital raising would enable

See WORLD NEWS/page 54

bi29p52 7/19/02 3:38 PM Page 1

Professional MarketPlace

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

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

HELP WANTED

Trust is the foundation of all success.

Executive Recruitment
Risk Management
Insurance Brokerage
RMIS Technology
Safety & Loss Control
Claims Management
Risk Management Consulting

Also ask about Temporary Opportunities
call: 973-765-9000 fax: 973-765-9009
15 James Street, Main Level
Florham Park, NJ 07932
www.rmainc.com

RMA
Richard Meyers & Associates, Inc.

HELP WANTED

keystrategies L.L.C.

"The Risk Management Career Experts"

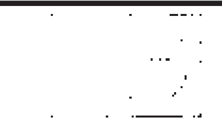
Executive Recruiting • Career Coaching

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

- Mike Tannenbaum
- Barry Citron
- Lee Burrows

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

HELP WANTED



BARRY M. GOLD & CO.

- Executive Recruiting Firm
- P&C/Benefits Specialists
- Extraordinary People for Extraordinary Opportunities
- Over 33 Years Experience

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

HELP WANTED

Risk Manager: $62,691 to $90,771 annually plus liberal fringe benefits. The City of Fort Lauderdale is looking for a Risk Manager to manage the Self Funded, self-administered Casualty Program, the Workers' Compensation Program, and the Employee Benefits for the City. These liabilities have a $25 million funding basis each year. Applicants must possess: a Bach Degree in business or public administration, insurance, risk mgmt, or a closely related field & a minimum of five yrs pd, full-time responsible and supervisory exp in the development and administration of various types of insurance programs, employee benefit programs, and Worker's Compensation programs. Apply by 08/16/02 City of Fort Lauderdale, Human Resources Division, 100 North Andrews Ave, Fort Lauderdale, FL 33301 or **www.ci.fort-lauderdale.fl.us.** EOE

REQUEST FOR PROPOSALS

NOTICE

The Kansas State Employees Health Care Commission issued a Request for Proposal on July 15, 2002. RFP #05144 requests proposals for **health plan benefits actuarial and consulting services** to be provided on behalf of the Commission. Closing date is August 16, 2002.

Currently there are 35,150 active employees, 9,500 retirees and 2,500 Educational Group employees who participate in the health plan. Total covered lives are 88,000. The state of Kansas offers five (5) fully insured health plans, one (1) self-insured PPO, one (1) self-insured managed indemnity option, a self-insured dental option, a self-insured prescription drug contract, and a voluntary vision plan. Consultant and actuarial services include contract development, plan design, plan utilization, fiscal analysis, current events, trends, legislative updates, and attendance at Commission meetings and general Commission staff support.

A copy of this RFP is available as at:
http://da.state.ks.us/purch/rfq/rfqdata/05144.doc or by contacting:

KANSAS DEPARTMENT OF ADMINISTRATION
Health Benefits Administration – Attn: Bonnie Long
900 S.W. Jackson Street, Room 951-S
Topeka, Kansas 66612-1251
E-mail: **benefits@state.ks.us**
Phone: 785-296-6280
Fax: 785-368-7180

LEGAL NOTICE

English & American Insurance Company Ltd: increase Scheme Payment to 30 per cent

Following consultation with the Creditors' Committee, the Joint Scheme Administrators of English & American Insurance Company Limited ("EAIC"), Tony McMahon and Tom Riddell, Partners in the Insurance Solutions practice of KPMG Corporate Recovery, have increased the Scheme Payment Percentage to creditors from 25 to 30 per cent as at 1 June 2002.

The first distribution at the new rate was paid to creditors with Established Scheme Liabilities on 5 July 2002. Following this distribution, the total amounts paid to creditors exceed US$51 million.

The Scheme Administrators estimate that the ultimate Scheme Payment Percentage may be in the range of 40 to 44 per cent. However, at this stage EAIC faces continuing uncertainty regarding its exposure to APH claims and to reinsurance bad debt, and therefore estimates of the final Scheme Payment Percentage cannot be given with any degree of certainty.

As at 31 March 2002 EAIC had agreed claims of US$325 million, of which US$180 million were Established Scheme Liabilities. Over the past two years the Scheme Administrators have made substantial progress in accelerating the agreement of claims and payment of dividends to Scheme creditors. At the same time, the Scheme Administrators continue to pursue collections from EAIC's reinsurers and since the inception of the Scheme have collected over US$174 million in reinsurance recoveries.

Tony McMahon, Joint Scheme Administrator commented:

"The progress on EAIC to date has been very encouraging as evidenced by the amount that has now been paid out to creditors. We are working hard towards an early closure of the estate within the next five years."

A meeting of EAIC creditors has been convened for 27 August 2002 at 10:30am at KPMG LLP's offices at 1-2 Dorset Rise, London, EC4Y 8AE.

Creditors should call the EAIC helpline on +44 (0)1452 782600 if they have any queries regarding the Scheme.

LEGAL NOTICE

THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION)
OF WESTERN SPECIALTY INSURANCE COMPANY) 02 CH 8782

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on May 6, 2002, the Circuit Court of Cook County, Illinois, entered an Agreed Order of Liquidation against Western Specialty Insurance Company ("Western Specialty"). Nathaniel S. Shapo, Director of Insurance of the State of Illinois, is the statutory and court affirmed Liquidator of Western Specialty ("Liquidator").

TAKE FURTHER NOTICE, that on May 30, 2002, the Circuit Court of Cook County, Illinois, found that Western Specialty was insolvent as of the date of the entry of the Agreed Order of Liquidation.

TAKE FURTHER NOTICE, that pursuant to the Agreed Order of Liquidation, all rights and liabilities of Western Specialty and its policyholders, creditors and stockholders, and all other persons interested in its property or assets, are fixed as of May 6, 2002, unless otherwise provided in subsequent orders of the Court.

TAKE FURTHER NOTICE, that on June 27, 2002, the Circuit Court of Cook County, Illinois, entered an Amended Order Providing for the Filing of Claims and the Setting of Claim Filing Deadlines ("Claim Filing Order"). Pursuant to the Claim Filing Order, all persons, companies or entities who have, or may have claims against Western Specialty, its property or assets, or against a Western Specialty insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before May 6, 2003 at 4:30 p.m. (C.D.T.).

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by Western Specialty shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before May 6, 2003 at 4:30 p.m. (C.D.T.). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made at the fourth priority level, 215 ILCS 5/205(1)(d), unless such claim has been liquidated and the insured claimant has presented and filed evidence of payment of such claim to the Liquidator on or before May 6, 2004 at 4:30 p.m. (C.D.T.). Any contingent claim for which a proper proof of claim is filed on or before May 6, 2003 at 4:30 p.m. (C.D.T.), but which is not liquidated on or before May 6, 2004 at 4:30 p.m. (C.D.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level, 215 ILCS 5/205(1)(e), unless otherwise directed by the Court.

TAKE FURTHER NOTICE, that the form and required contents of all proofs of claim are described in 215 ILCS 5/209. Proofs of claim, along with supporting documents, if any, are to be filed with, and may be obtained from, the Liquidator of Western Specialty, c/o the Office of the Special Deputy Receiver, located at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. A proof of claim shall be deemed "filed" with the Liquidator upon the Liquidator's receipt thereof. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to Western Specialty upon all filed claims. All proofs of claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS, COMPANIES OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIM AGAINST WESTERN SPECIALTY, ITS PROPERTY OR ASSETS, OR AGAINST A WESTERN SPECIALTY INSURED OR POLICYHOLDER, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE MAY 6, 2003 AT 4:30 P.M. (C.D.T.)

Cathleen M. Travis
Special Deputy Receiver

BUSINESS OPPORTUNITIES

PROGRAM MANAGERS AND REINSURERS NEED A FRONT COMPANY?
Equity Investors Invited

Need a policy issuing carrier for your Program? Clean NY domiciled P/C carrier available for NY programs. We can also provide policy and claim administration. You supply the surplus and acceptable reinsurance security. Reply to P.O. Box 563, Patchogue, NY 11772, (Attn: SH) and provide your telephone contact. All replies will be treated in strict confidence.

LEGAL NOTICE

IN THE SUPREME COURT OF BERMUDA
COMPANIES (WINDING-UP) 2000: NO. 172
IN THE MATTER OF THE INSURANCE ACT 1978
IN THE MATTER OF THE COMPANIES ACT 1981
AND IN THE MATTER OF
TRA INSURANCE COMPANY LIMITED
(IN LIQUIDATION)
NOTICE TO CREDITORS TO PROVE
(Rule 73(1) Companies Winding-Up Rules 1982)

TAKE NOTICE that all creditors of TRA Insurance Company Limited in Liquidation are required to prove their debts by sending proofs of debt to the Joint Liquidator no later than 5.00 pm Bermuda time on the 16th day of August 2002 at the address below.

If you fail to prove your debts by the aforesaid deadline, you will be excluded from the benefit of any distribution made before you prove your debts or as the case may be from objecting to such distribution.

Dated this 17th day of July 2002

SCOTT HUNTER *Joint Liquidator*
c/o Ian Ridge, PricewaterhouseCoopers, Dorchester House, 7 Church Street, Hamilton HM 11, Bermuda
PO Box HM 1171, Hamilton HM EX, Bermuda
Tel:(441) 295 2000
Fax: (441) 295 1242
NB: Proofs of debt have been mailed with copies of this Notice to all known creditors.

MORE CLASSIFIEDS ONLINE! **www.businessinsurance.com**

BI 07-22-02 A 53 7/19/02 4:15 PM Page 1

SAS: Cost burdens

Continued from page 51

ums for the coverage of aircraft and airport facilities, the airline's insurance bill also reflects higher premiums for hotels, office properties and freight-forwarding operations owned by SAS.

SAS's commercial insurance costs may increase further still in 2002/2003.

This will depend on the outcome of an investigation into last October's crash, being conducted by Italian investigators. The final draft of the 115-page report suggests that the Linate Airport authority may be required to share liability for the collision.

SAS is also being criticized by analysts and politicians for using its fast-diminishing "war chest" to fund costly acquisitions at a time when the airline's passenger numbers are falling and its insurance premiums are rising.

"The rise in fleet and commercial group insurance costs has weakened SAS's position. That said, other major European airlines are managing to operate profitably, and questions must be asked why a company that has identified its insurance bill as a key factor in the losses being sustained should want to further increase that bill by engaging in two large takeovers that extend its exposure by adding 40 aircraft to its fleet," said Lars Nordblom, an analyst with LP-Equity, an investment bank based in Helsinki.

SAS posted an operating loss of $141 million in 2001 on revenues of $6.5 billion, its worst result ever. SAS's operating loss during the first quarter of 2002 was $185 million, while its share price has halved, to $7, since June 2001. The group's net loss was over $162 million.

"At this rate of daily sustained losses, SAS could run out of working capital by October 2003. Industry experts agree that bankruptcy looms if immediate corrective action isn't taken," said independent Swedish airline analyst Bo Sehlberg.

Despite the apparent doom and gloom, Mr. Lindegaard said he is optimistic for the future of the airline.

"We are beginning to get to grips with the management of our heavy insurance and security costs. We are also starting to see a recovery in passenger numbers," he said.

In a bid to reduce commercial insurance costs, SAS has postponed taking delivery of 13 new aircraft, including nine Airbus A321 and four Boeing 737s. The airline has also asked its state shareholders, which include the governments of Denmark, Norway and Sweden, to consider subsidizing its commercial insurance bill.

Paneling: Fire risk raises rates

Continued from page 51

posed to the vagaries of the insurance market."

The food industry is suffering very badly, he said.

The problems posed by composite paneling are making the purchase of insurance very difficult for food retailers, agreed David Barnes, executive director in the construction department of broker Heath Lambert in London.

A spokesman for Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global, said, though, that the paneling is widely used throughout the world and that its fire risk is well known.

Although U.S. fire codes, for example, do not prohibit the use of the paneling, they require that it be covered by other material to reduce the risk of fire, he said.

Graham Norman, risk management manager at Safeway Stores in London, said that, until recently, insurers, while expressing their preference that businesses avoid the use of composite paneling, have "tolerated" the building material. But this year, he said, "they have taken a very tough stance."

The toughened underwriting stance is likely being influenced by increasing market hardening in property insurance that is leading insurers to drop more-risky and less-profitable policyholders.

Although substitutes for composite paneling exist, they are very costly to install, Mr. Norman said. "There are alternative materials out there which are acceptable to insurers, but they are expensive or difficult to incorporate into warehouses and stores," he said. "So you either address the problem or take the higher premiums."

Mr. Norman added that U.K. property insurers are trying to ensure that all new food storage facilities are built using alternative materials.

Risk managers are facing either a large one-time cost hit to replace the paneling or vastly increased insurance premiums, Mr. Swift explained.

Many cannot afford to do either, he said, and so they are running the risk of being underinsured.

"What U.K. food chain businesses are now faced with are...three- to fivefold insurance cost increases, with significant first-loss excesses, or no cover at all," said Grant Thornton's Mr. Swift.

Rate hikes of about 250% are not uncommon, Mr. Norman said. He added that a recent spate of large losses at food stores and supermarkets, frequently caused by arson, have exacerbated the problem. This has contributed to a shrinkage of capacity for property risks within this industry, he said.

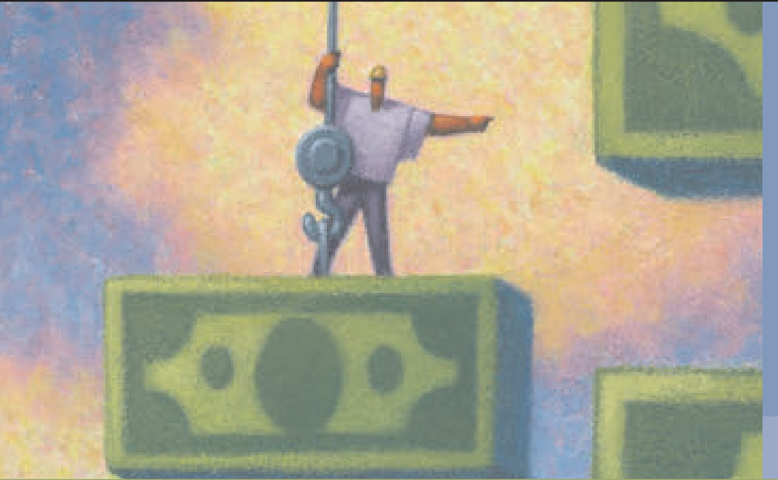
The issue of composite paneling has "caused us to totally revisit our entire insurance program," Mr. Norman said.

Many food stores have decided to self-insure and are "desperately hoping that the whole thing literally doesn't go up in smoke," Mr. Swift said.

Both supermarkets and food distribution companies have discussed the possibility of creating an industrywide mutual insurance mechanism, Mr. Norman said. He added that while no plans for such an arrangement have yet been finalized, it is certainly a risk financing option that he, as a supermarket risk manager, would consider.

Mr. Swift described the problem as very serious, and he noted that "many food chain businesses will be operating with inadequate or no insurance cover arrangements."

"What is needed," Mr. Swift said, "is a representative trade association to grasp the nettle, pool members' resources to engage in a new dialogue between the industry and the risk carriers to agree to a timetable to replace the high-risk panels but, in the meantime, reinstate some basic cover to these very vulnerable businesses."



Business Insurance TENTH ANNUAL
WORKERS COMPENSATION
AND DISABILITY MANAGEMENT
CONFERENCE
SAVE THE DATE
Presented in conjunction with IBF • International Business Forum
OCTOBER 21-23, 2002 HYATT REGENCY SAN FRANCISCO

STAY ON TOP OF THE LATEST DEVELOPMENTS IN WORKERS COMPENSATION AND DISABILITY MANAGEMENT
Hear and meet employers and industry experts who will review challenges, solutions and best practices

CONFERENCE HIGHLIGHTS:

INDUSTRY EXPERTS TO ADDRESS BEST PRACTICES AND CASE STUDIES
- Buyers and sellers face off over market conditions
- Successful strategies for reducing costs
- Coping with catastrophes
- New legislative and legal developments

EMPLOYERS' PRIVATE ROUNDTABLE: EXPERIENCES, VIEWS AND IDEAS
Employer representatives responsible for their organizations' workers compensation and disability management programs will gather behind closed doors for an informal, off-the-record discussion of experiences, complaints and ideas.

WHO SHOULD ATTEND:
This annual event attracts risk managers and other workers compensation and safety managers from private organizations as well as state and local governments, in addition to representatives from insurers, brokers and consultants.

TO VIEW FULL AGENDA, REGISTER, OR OBTAIN MORE INFORMATION:
100 Merrick Road, Suite 500, West Building
Rockville Centre, NY 11570
Email: cathy@ibfconferences.com
Phone: 516-594-3000 x21
Fax: 516-594-5979
Web: www.ibfconferences.com

For Sponsorship information contact Jennifer Fauci, (516) 594-3000 x19 email: jennifer@ibfconferences.com

BI 07-22-02 A 54 7/19/02 3:47 PM Page 1

Shortfalls: States target insurance resources

Continued from page 1

as well as providing temporary block grants to help fund social services obligations.

While the chances of the federal bailout proposal are uncertain, state legislatures already are taking a variety of steps to use insurance-related funds to pay general expenses.

"With some exceptions, the industry was not singled out as a target for state efforts to increase revenues…as states generally spread the pain around," said Lenore S. Marema, vp-legal and regulatory affairs for the Alliance of American Insurers, in Downers Grove, Ill.

For example, New Jersey lawmakers recently transferred half of the balance—or $40 million—from the state's surplus lines guaranty fund, which had been primarily funded through 4% surcharges on policyholders (*BI*, July 15).

The remaining $40 million in the fund is considered "sufficient to satisfy all existing covered claims," according the law, which also reduced the types of claims eligible for coverage under the fund.

"Insurance buyers should care about this because the protections afforded by the surplus lines guaranty fund have been weakened substantially," said Richard Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices Ltd. in Kansas City, Mo.

Earlier this year, New Jersey lawmakers approved legislation, S.B. 18, that "diverted $20 million from the state's second injury fund in order to help meet the state's budget shortfall," according to the Washington-based American Insurance Assn.

In Montana, lawmakers are taking a different, albeit insurance-related, approach to their fiscal crisis.

Gov. Judy Martz has proposed the Montana Workers' Compensation State Fund "pay back $16.5 million over the next three years as interest on a previous general fund loan," according to Bill Gausewitz, AIA assistant vp-Western Region in Sacramento, Calif.

The governor has called a special session of the Legislature Aug. 5-16 to consider this and other measures to address the state's estimated $45 million budget shortfall.

The proposal to hasten repayment of the loan was quickly overshadowed, however, by the state fund's effort to leverage the situation into state approval of a restructuring of the fund. The Montana fund announced that it would seek passage of legislation during the special session to become an independent, self-supporting, nonprofit public corporation. Outcry from several insurer groups prompted the Montana fund to withdraw its proposal for the time being.

> **'With some exceptions, the industry was not singled out as a target for state efforts to increase revenues…as states generally spread the pain around.'**
>
> *Lenore S. Marema*
> *Alliance of American Insurers*

Essentially, the fund's proposal "would have transformed it into a mutual insurance company in a format that lacked direct regulatory oversight, yet included the new company in the state guaranty fund," according to Larry Kibbee, the Alliance's vp-Northwest Region.

Other states are taking a different course of action.

Minnesota Gov. Jesse Ventura's effort to veto the state budget was twice overridden by the state's Legislature, despite insurance industry opposition.

Minnesota's new budget allows the state to tap more than $400 million from two workers compensation funds, including the state second injury fund and assigned risk plan.

Insurers in the state are likely to face higher assessments to replace some of the second injury funds. And, as if often the case when insurers' costs rise, higher assessments are likely to be passed on to buyers.

Legislatures in several states—including Arizona, Illinois, Massachusetts, Oklahoma and Rhode Island—have cut funding for state insurance departments as one way to help balance their budgets, Ms. Marema said.

State insurance departments are tightening their belts now through hiring freezes and expense cuts, but staff cuts, if needed, likely won't come until after the November election, Ms. Marema said.

Depending upon how state legislators respond to those cuts, insurers could face higher taxes and assessments to replace lost funding. Or, if the departments' lay off staff, buyers and insurers could face less regulatory oversight.

In North Carolina, insurers also could face higher costs if a pending bill, H.B. 1694, eliminates the premium tax offsets for guaranty fund assessments, said Michael Koziol, senior director and counsel for the National Assn. of Independent Insurers in Des Plaines, Ill.

Overall, industry trade groups are generally opposed to pre-assessment funds "because they are frequently used as a deep pocket for budget shortfalls," he said.

Some of the most notable examples of states tapping insurance funds for other purposes have occurred in New York, where the state has raided various funds for more than a decade. This year, though, the only legislative action was to allow a guaranty fund for livery vehicles to borrow money from a similar fund for private passenger automobiles, according to an AIA spokesman.

Termination: Improper grounds for firing

Continued from page 3

According to the decision, Ms. Grant-Burton's wrongful termination claim "is based on a policy that is supported by the statute, inures to the benefit of the public, was well established at the time of discharge, and is fundamental and substantial.

"Her claim is also supported by evidence that she was terminated in violation of that public policy, namely, the right of employees to discussion their compensation with one another—a right protected by the (National Labor Relations Act)" and state law, the decision states.

Ms. Grant-Burton's attorney, solo practitioner Anita G. Edwards of Long Beach, Calif., said the decision "really clarifies for both employers and employees exactly what the employee's right is with respect to voicing or discussing their working conditions even as it relates to pay."

She labeled the decision "very important."

However, Covenant's attorney, Keith A. Fink of Los Angeles-based Keith A. Fink & Associates, said, "the way this opinion is drafted, it gives plaintiffs in this state another hook to try and hang their hats to try to sue their employers and get around the at-will doctrine," which generally permits employers to fire employees for no reason.

> **'We have always advised employers not to put in their handbooks, for example, that employees may not discuss the terms of their compensation.'**
>
> *Wendy Lazerson*
> *Holland & Knight*

Jeffrey Berman, an employer attorney with Sidley, Austin, Brown & Woods in Los Angeles, said he is concerned about the court's position that a public policy tort claim can be filed if an employee is fired after engaging in activities protected by the National Labor Relations Board.

"The exclusive jurisdiction to resolve claims of violation of the NLRB is the NLRB and not the courts," he said. This means an employee "should not be able to bring a public policy claim" under the NLRB, said Mr. Berman. "It should be pre-empted also and the court did not address that issue."

He said he might ask the appellate court to modify or depublish its decision on behalf of the Los Angeles-based Employers Group, an association of attorneys who represent employers. The Employers Group may also file an amicus brief in the case with the California Supreme Court, said Mr. Berman.

However, employer attorney Wendy Lazerson, of Holland & Knight in San Francisco, said the decision "doesn't change what we understood the law to be, which is that a protected activity for employees is the right to discuss their own compensation."

"We have always advised employers not to put in their handbooks, for example, that employees may not discuss the terms of their compensation," Ms. Lazerson said.

Sharron D. Grant-Burton, plaintiff and appellant, vs. Covenant Care, Inc., defendant and respondent, in the Court of appeal of the State of California, Second Appellate District, Division, One, 02 C.D.O.S. 6182

Lloyd's: Reforms

Continued from page 51

would publish guidelines on underwriting, risk management and standards of service; set a long-term profitability target for the market; and approve and monitor syndicate business plans.

Another proposal calls for the elimination of unlimited-liability underwriting, with no new unlimited-liability members admitted after Jan. 1, 2003. Lloyd's said it would continue to work with Inland Revenue—the U.K. tax department—to find a way to let unlimited-liability members convert to limited-liability status without losing tax advantages.

The proposals also seek to encourage new investment in the market by allowing investors to participate without having to become members of the Society of Lloyd's.

The change aims to make it easier for investors to enter and exit the market, as the nonmember investors would not face claims for open years—or those for which ultimate liabilities have not been calculated—after leaving the market, a Lloyd's spokesman said. Lloyd's members, in contrast, are exposed to all claims for open years.

World Updates

Continued from page 51

it to take advantage of the hardening insurance market.

Briefly noted

John Hastings-Bass, an executive director at **Jardine Lloyd Thompson Group P.L.C.** has been appointed chairman of the broker's employee benefits arm. Dominic Burke, formerly chief executive of Burke Ford Holdings Ltd., which JLT acquired in 2000, has been named chief operating officer of the employee benefits division. He will also continue in his role as CEO of Jardine Lloyd Thompson U.K. Ltd.…Claims management company **Cunningham Lindsey United Kingdom** has acquired the special investigation division of London-based loss adjuster Miller Fisher Group for an undisclosed sum. Miller Fisher went into receivership earlier this month. The acquisition will increase Cunningham Lindsey's special investigation staff to over 150.

ADVERTISER INDEX

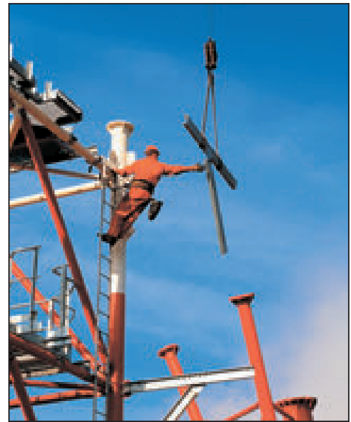
Issue of July 22

ADVERTISER	PAGE #
Acordia Inc.	20
Aetna Corporate	15
AIG Corporate	Cover 2, 3, 4
AIG eBusiness Risk Solutions	47, 49
Alea	24
Amerihealth Adminstrators	30
AMS Services Inc.	44
Aon Corporation	7
Aon Specialty Product Network	40
Applied Systems	42
Aquila	21
Arthur J. Gallagher	35
Assurex Global	12/13
Blue Cross of California	41R
Brownyard Group	50
Business Insurance	41, 45
Cambridge Integrated Services	26
Carvill America, Inc.	6
Chubb Specialty Insurance	27
CNA RSKCo	Cover 6
Council of Insurance Agents & Brokers	Cover 5
Crump Group	50
Dempsey, Myers & Company	2
Fireman's Fund McGee	25
G&M Marine	42
Harbor Capital Advisors	46
Heath Holdings USA, Inc.	14
Hotjobs.com	39
Lexington Insurance	43
Marsh Inc.	9
Marsh & Berry	28/29
MaxRe Ltd.	17
Metropolitan Life Insurance Co.	32/33
Munich-American Risk Partners	37
Mutual of Omaha	19
NAPCO	4
Partner Reinsurance	23
Prudential Financial	31
Reagan Consulting	36
The Travelers P/C Ins. Co.	22
Zurich NA	5

BI 07-22-02 A 55 7/19/02 5:33 PM Page 1

For the Record

This roundup of news from the previous week is generated by *BI*'s daily news reporting. To get breaking news as it occurs, log on to *www.businessinsurance.com*, or sign up online for free *BI* Daily News by e-mail.



Difficulties in obtaining adequate terror cover have slowed lending for development projects.

Terror cover problems slow property lending

A lack of comprehensive and affordable terrorism insurance for commercial properties has taken a toll on development projects in 2002, according to the Mortgage Bankers Assn. of America. Terrorism coverage problems precluded an estimated $3.7 billion in deals this year and delayed or changed the pricing on another $4.5 billion, the MBA reported. The MBA based its estimates on a survey of 25 commercial and multifamily property loan companies, of which 44% said the lack of adequate terrorism coverage had "greatly impacted" their ability to make loans on commercial properties.

Senate bill would mandate reporting of misconduct

Corporate attorneys would be required to report management misconduct to boards of directors or face sanctions under the last amendment offered to the corporate accountability bill passed by the Senate last week. The amendment—offered by Sens. John Edwards, D-N.C.; Mike Enzi, R-Wyo.; and Jon Corzine, D-N.J.—calls upon the Securities and Exchange Commission to issue rules of professional conduct for corporate attorneys. Also, last week the House of Representatives gave overwhelming approval to a measure that would create criminal penalties for certain types of corporate wrongdoing.

House panel examining health care access

The House Energy and Commerce Committee's Health Subcommittee launched a series of hearings last week into health care access. The initial hearing underscored deep divisions among subcommittee members over why some physicians and hospitals are closing their doors. Many of the panel's Democratic members said their Republican colleagues had already decided that litigation and nothing else was to blame, a charge that subcommittee Chairman Michael Bilirakis, R-Fla., denied. He said that a future hearing would deal with insurance regulation. There is "substantial evidence that suggest" that skyrocketing medical malpractice insurance rates are related to the business cycle and business practices of insurers, said Rep. Henry Waxman, D-Calif.

Rep. Bilirakis

Combined Specialty buys surplus lines insurer

Combined Specialty Group Inc., the newly organized insurance underwriting operation of Aon Corp., has acquired Sheffield Insurance Corp., a small Birmingham, Ala.-based property/casualty excess and surplus lines insurer. Sheffield, a unit of Birmingham, Ala.-based insurance holding company Vesta Insurance Group, will be renamed Combined Excess & Surplus Lines Insurance Co.

Investment losses cut Travelers' profits

Travelers Property Casualty Corp. reported a 49.4% drop in net income for the first half, to $434.1 million. First-half results include a first-quarter $242.6 million aftertax charge, which reflects a change in accounting principles attributed to goodwill, and $5.1 million of aftertax net realized investment losses. Last year's first-half results included $157.5 million of aftertax net realized investment gains. Operating income for the first half increased 3.1%, to $683.4 million. Net written premiums for commercial lines rose 28%, to $3.61 billion.

Travelers

Wellness benefits growing: Hewitt

More U.S. employers than ever before are offering employees access to health promotion and management programs, a study shows. In 2001, 93% of employers surveyed by Lincolnshire, Ill.-based benefit consulting Hewitt Associates Inc. offered such benefits, up from 89% of employers surveyed in 1996. Disease and medical management programs are the most popular type of health promotion programs offered, provided by 76% of employers in 2001, compared with 63% in 1996. Special programs for other types of medical management, such as flu vaccinations and well-baby and prenatal care, were offered by 79% of employers in 2001, up from 63% in 1996.

9th Circuit upholds Holocaust disclosure law

California-licensed insurers and reinsurers must comply with a state statute that requires them to disclose information about Holocaust-era policies that they or affiliated companies sold in Europe, a federal appeals court panel ruled last week. Various insurers, reinsurers and trade groups argued that California Insurance Commissioner Harry Low should be barred from enforcing California's Holocaust Victim Insurance Relief Act of 1999. The act requires insurers to disclose the status of life insurance policies sold to Europeans between 1920 and 1945, even if that means local insurers must obtain the information from affiliated companies located overseas.

UnitedHealth profits rise in first half

UnitedHealth Group cites increased membership and cost-management initiatives as helping it report growth in both total revenues and net earnings for the first half of 2002. The managed care company reported net earnings of $620 million for the first half, an increase of 42.5% over the first half of 2001. The company noted that 2001 results were adjusted to reflect a new accounting rule on the amortization of goodwill. In addition, UnitedHealth Group's total revenues for the first half of this year rose by 5.2%, to $12.1 billion. Total medical costs during the first half of 2002 increased by 1.8% from the year-earlier period.

Briefly noted

Mercer Human Resource Consulting L.L.C. has named Daniel McCaw chairman and chief executive officer. Mr. McCaw was previously head of the firm's U.S. operations. He replaces Peter Coster, who will continue in his other role as president and CEO of Mercer Consulting Group. In addition, Mercer named Karen Greenbaum president and chief operating officer of its U.S. operations. Ms. Greenbaum was in charge of Mercer's Midwest region unit.... Hawaii Gov. Benjamin Cayetano has signed legislation, S.B. 2824, that brings state law into conformity with a provision of the 2001 Economic Growth Tax Relief and Reconciliation Act that allows employees 50 and older to make **catch-up contributions to their 401(k) plans.** Hawaii's action leaves only four states—Arkansas, Massachusetts, North Carolina and Wisconsin—that have not yet changed their statutes to mesh with EGTRRA's catch-up provision....The Occupational Safety and Health Administration announced plans last week to update its 1971 **construction safety standards** for cranes and derricks. The public will now have 60 days to comment on the proposal.

Online Poll [7/15 - 7/19]

Do the ends justify the means when lawmakers propose mandating that health plans provide coverage of cancer screening tests?

YES 75.3% **NO 24.7%**

Take part in our weekly poll at *www.businessinsurance.com*

BI Stock Index [3/4 - 3/8]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at *www.businessinsurance.com*

Percentage change of *BI* Stock Index vs. key indicators

-7.66

BI Stock Index	Dow Jones	S&P 500
1829.14	8019.26	847.75

Largest gains

Company	Change
Gainsco Inc.	25.00%
RLI Corp.	4.42%
PacifiCare Health Systems	2.08%
Health Net Inc.	1.90%
Oxford Health Plans	1.27%

Largest losses

Company	Change
Trenwick Group Ltd.	-28.57%
Penn-American Group	-19.02%
Harleysville Group	-17.84%
Meadowbrook Ins. Group	-17.20%
Arthur J. Gallagher & Co.	-15.39%

Weekly change by market segment

Segment	Change
Brokers	-9.18%
Insurers/Reinsurers	-7.01%
Managed Care Organizations	-3.16%

Source: CNET Investor (investor.cnet.com)

Mold: Health hazards debated

Continued from page 3

Sandler Occupational Medicine Associates in Melville, N.Y. Dr. Sandler said, "somewhere along the line, the word 'mold' was transformed into 'toxic mold.'" He called the use of such terminology "inflammatory." The mere presence of mold does not mean that a hazardous airborne exposure has been reached, Dr. Sandler said in his prepared testimony. He urged more study of the issue and told the lawmakers, "Let the legislation follow sound science."

Dr. Stephen Redd, chief of the air pollution and respiratory health branch at the Centers for Disease Control and Prevention's National Center for Environmental Health, noted that certain molds can cause illness—notably allergic diseases—when people face exposure to extensive indoor mold growth. But "we do not know whether molds cause other adverse health effects, such as pulmonary hemorrhage, memory loss or lethargy. We also do not know if the occurrence of mold-related illnesses is increasing," because there is no comprehensive system to track such illness, said Dr. Redd.

Another witness called for federal mold exposure standards for the workplace.

"Mold presents a potential workplace hazard for workers and facility occupants," said Thomas C. Tighe, executive assistant to the general president and director of stationary affairs for the International Union of Operating Engineers in Pittsburgh.

"In commercial facilities, the manner in which mold complaints are handled is varied and lacks uniformity. This could create a variety of inconsistent procedures that can lead to questionable practices," he said. Federal standards could create "specific procedures" for prevention, investigation and testing for mold, said Mr. Tighe.

BI 07-22-02 A 56 7/19/02 3:50 PM Page 1

Pensions: Blackout warning sought

Continued from page 1

ception.

To be sure, advance notice to participants would not be required in the Senate measure due to events that were unforeseeable or due to circumstances beyond the reasonable control of the plan administrator.

But benefits lobbying groups say that the exemption, based on the way the legislative language is drafted, might not apply in situations in which plan transactions are briefly halted. For example, transactions might be stopped in situations such as when a plan administrator upgrades software or takes a 401(k) plan administration system down for routine maintenance.

While such events could be foreseeable, it might not always be possible to give 30 days advance notice to participants, said Marilyn Scalia, a vp at Mellon HR Solutions in Fort Lee, N.J.

Benefits experts also note that the legislation appears to give authority to the Securities and Exchange Commission to develop rules and remedies about blackout periods. That could open the door to the regulation of benefit plans by the SEC, which benefit experts say lacks expertise in that area.

Above all, they question why the blackout provision has been included in legislation dealing with accounting and corporate governance reform, because Congress is separately dealing with the blackout issue as part of 401(k) reform legislation, prompted by last year's failure of Enron Corp. That debacle collectively cost Enron 401(k) plan participants about $1 billion when Enron shares fell in the wake of the company's restatement of financial statements to report massive losses.

Enron-inspired reforms in those other bills include giving employees the ability, after several years, to sell company stock contributed as a 401(k) plan match, as well as advance notice of 401(k) plan blackout periods.

"These are issues Congress is dealing with in the context of pension legislation," said James Delaplane, vp-retirement policy at the American Benefits Council in Washington.

"The need for advance notice of any blackout period has been addressed and is being addressed by other congressional committees with expertise and jurisdiction over employee benefit plans," the Washington-based ERISA Industry Committee said in an issue brief to members.

In light of that, the groups say language about blackout periods should be removed from the Senate bill when congressional conferees meet to resolve differences between the measure and an accounting and corporate governance bill earlier passed by the House. The House bill does not include a comparable blackout provision.

Separately, the Senate legislation would increase the maximum penalties for willful criminal violations of the Employee Retirement Income Security Act to 10 years in prison, from the current one year maximum.

Mizel: Building a new broker

Continued from page 1

not be better, given the hard insurance market and the recent successful initial public offerings of other brokerages.

Although the venture capital market has dried up, there are "many private equity firms out there that are looking to insurance brokerages for a safe place for capital," said John M. Wepler, vp-merger and acquisition services at Marsh Berry & Co. Inc. in Concord, Ohio. "The ability to fund a broker to go out and make acquisitions and then go public is very attractive right now," he said.

Mr. Wepler cited the positive response from investors to Willis Group Holdings Ltd.'s June 2000 IPO and Hub International Ltd.'s recent U.S. listing.

"Not only do (investors) feel it's a good time to get into the brokerage business, given the hard market, but they also feel there is a desperate need for another middle-market publicly traded insurance brokerage," Mr. Wepler said. "There are some larger commercial accounts with risk managers that feel that they have been held hostage by some of the global brokers and are looking for more alternatives."

John Wicher, of insurance investment bank John Wicher Associates Inc. in San Francisco, agreed that there is always room for another middle-market brokerage.

"Many mid-market commercial buyers of insurance want access to and (want) to be able to receive responses to (requests for proposals) from three to five middle-market brokers," Mr. Wicher said. "There continues to be a feeling that the largest brokers don't really see middle-market clients as a priority."

For their part, though, some big brokers, including Marsh Inc., say they are increasing their efforts to serve the middle market, which they see as a growth area (see story, page 32).

Mr. Wicher noted that although private equity firms do indeed have a strong interest in the insurance brokerage business at the moment, any new player today needs to have a good business plan.

> **'Not only do (investors) feel it's a good time to get into the brokerage business, given the hard market, but they also feel there is a desperate need for another middle-market publicly traded insurance brokerage.'**
>
> *John M. Wepler*
> *Marsh, Berry & Co. Inc.*

"If it's simply a roll-up of middle-market brokers with nothing distinctive in terms of a business model that creates value for the insurance buyer…then it's a big snooze," Mr. Wicher said. "To the extent that you have a business model that employs technology and addresses the underserved needs of clients, that's pretty interesting and I think there is capital available for that."

Mr. Wicher also noted that a successful track record is important in obtaining funding.

And Mr. Mizel certainly has such a record.

He began his insurance career in 1959 as an account executive with Levin, Knox & Co., a San Francisco-based brokerage. Four years later, he purchased broker Albert M. Bender & Co., which had annual revenues of about $200,000. Mr. Mizel built the company into a firm with $7 million in annual revenues and sold it in 1978 to Bache Halsey Stuart. Staying on as chairman and CEO, Mr. Mizel took the company, renamed Bache Insurance Services, to $100 million in revenues in 1982, which made it the 10th-largest commercial insurance brokerage in the United States that year.

That same year, Mr. Mizel sold Bache Insurance Services to Prudential Insurance Co. of America, which spun the brokerage off to Jardine Insurance Brokers Inc. Mr. Mizel remained president of Jardine until 1984, when he left to form American Business Insurance.

Under Mr. Mizel, ABI grew into the world's 19th-largest broker in 1992, based on 1991 revenues of $116.5 million. Mr. Mizel left ABI that year and, in 1993, Acordia Inc. purchased ABI.

In 1994, Mr. Mizel founded USI. In 1999, USI made its debut in *Business Insurance's* worldwide brokerage top 10, ranking as the world's sixth-largest broker, with $327.0 million in 1998 brokerage revenues.

"There is no question (Mr. Mizel) has a unique skill in getting people to want to be part of his team, and he has two (brokerages) under his belt already," Mr. Wepler said. "Many people would say he would be a good risk for the capital, and I don't think he'll have any problem raising it."

Commissioner: Garamendi seeks to mend fences

Continued from page 3

pacity into the state, Mr. Garamendi said.

Convincing insurers that Mr. Garamendi would behave differently toward them if elected again is a tough sell, though, said Dan Dunmoyer, the president of the Personal Insurance Federation, a Sacramento, Calif.-based insurance industry association.

Mr. Dunmoyer said that if Mr. Garamendi were to win the commissioner race in November, he would be under political pressure—just as any politician would be—to take a tough stand on insurers. Politicians do not continue winning political offices by campaigning as insurance industry patsies, Mr. Dunmoyer pointed out.

"He has intentionally tried to represent himself as a new and kinder John Garamendi," Mr. Dunmoyer said. "It's very hard for us to expect that to be the case if Mr. Garamendi is re-elected."

Mr. Dunmoyer said he believes that Mr. Garamendi is meeting with insurers to prevent them from taking measures pre-emptively—such as restricting coverage availability or raising rates—that the companies would not be able to take should he be elected.

Mr. Garamendi is running against Gary Mendoza, a Republican who served as California's commissioner of corporations from 1993 to 1996. At that time, the state's Department of Corporations regulated health maintenance organizations. Reform legislation enacted in 2000 passed that authority to a new Department of Managed Health Care.

Mr. Mendoza works for the law firm of Riordan & McKinzie in Los Angeles, where he is a consultant to health plans. He also served from 1996 to 1997 as Los Angeles' deputy mayor of economic development under former Mayor Richard Riordan.

Currently, Mr. Garamendi is tending his ranch in Northern California, following a stint at an investment firm. Previously, he served as deputy secretary at the U.S. Department of the Interior under former President Bill Clinton.

Both candidates refuse to accept insurance industry campaign donations. They both also say they are eager to tackle issues plaguing employers, such as problems in the workers comp insurance system.

So far, though, employers are not paying much attention, several Sacramento observers say.

"It doesn't occupy a tremendous amount of space in the priority of business," said a Sacramento lobbyist who represents employers on workers comp issues. "They don't care who gets elected, as long as they get workers compensation premiums down."

> **A commissioner has a big platform from which he can advocate workers comp reform legislation.**
>
> *Gary Mendoza*

Mr. Mendoza said he would do that by fighting workers comp fraud and increasing the accountability of the medical delivery system. To do so, he would push for treatment protocols and surgical fee schedules. He also wants to reduce injury claim litigation.

Mr. Mendoza concedes that addressing some of those matters requires lawmakers to pass legislation. But he noted that an insurance commissioner has a big platform from which he can advocate for such legislation.

Mr. Mendoza also wants to encourage the use of "consumer-driven" health plans. He said he would do so, in part, by maintaining a regulatory environment that is favorable for insurers that provide catastrophic coverage for those health plans.

Mr. Garamendi said that improving the workers comp environment is one reason that he is cultivating relations with insurers.

Currently, workers comp insurers are afraid that some insurance policy surcharges that finance California's guaranty fund will be converted into an industry assessment, he said. Surcharges are passed directly onto insurance purchasers, while assessments are paid by the industry, Mr. Garamendi explained.

"Companies are very concerned they will enter the market only to be hit with an assessment," he said. "My policy is clear—maintain the current surcharges and do not go to an assessment."

Sacramento observers say that, for now, Mr. Garamendi is the candidate favored to win the election. They cite his high level of name recognition, though some of that recognition stems from a failed 1994 bid to become California's governor.

But on July 9, Mr. Mendoza's campaign released the results of a poll suggesting he has cut Mr. Garamendi's lead by more than half. The poll of 600 voters showed that 38% favor Mr. Garamendi, while 31% favor Mr. Mendoza.

To help narrow that lead even more, Mr. Mendoza's campaign is expected to hammer on Mr. Garamendi's sale of assets formerly owned by Executive Life Insurance Co.

The life insurer became insolvent in 1991, and Mr. Garamendi, as the state's insurance commissioner, oversaw the sale of Executive Life's assets, including its portfolio of junk bonds. Critics charge that he sold the bonds—which later appreciated in value—for too little, losing potential retirement funds for Executive Life policyholders.

Mr. Garamendi maintains that he got the best deal possible for policyholders.

02bi0301 7/16/02 10:03 AM Page 1

THERE ARE
THOSE WHO DO.

02bi0302 7/17/02 3:08 PM Page 1

AND THOSE WHO WOULDACOULDASHOULDA.

Which one are you? If you're the kind of person who's willing to put it all on the line to pursue your goal, there's AIG. The organization with more ways to manage risk and more financial solutions than anyone else. Everything from business insurance for growing companies to travel-accident coverage to retirement savings plans. All to help you act boldly in business and in life. So the next time you're facing an uphill challenge, contact AIG.

THE GREATEST RISK IS NOT TAKING ONE.®

Insurance and services provided by members of American International Group, Inc., 70 Pine Street, Dept. A, New York, NY 10270. www.aig.com

bi29gate.qxd 7/18/02 1:23 PM Page 1

www.businessinsurance.com

Business Insurance®

July 22, 2002

Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.

$30

WORLD'S LARGEST BROKERS

31ST Annual Agent/Broker Profiles and Rankings

NEWSPAPER