

Business Insurance

\$5

October 6, 2008

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**FEW P/C INSURERS
EXPECTED TO TAP
BAILOUT PLAN / PAGE 3**

**MENTAL HEALTH PARITY
SIGNED INTO LAW AS PART
OF WIDER MEASURE / PAGE 3**

**ERISA DOESN'T PRE-EMPT
SAN FRANCISCO HEALTH LAW,
APPEALS COURT RULES / PAGE 3**



In Brief

Best sees gloomier
forecast for P/C

A.M. Best Co. Inc., in a revision of its forecast for the U.S. property/casualty industry's underwriting results, last week estimated the industry's overall combined ratio will rise to 103.2% due to continued price softening, challenging market conditions, unusually high catastrophe losses in the first half of 2008, and significant underwriting losses reported by mortgage and financial guarantee insurers. In January, Best had projected the industry would post a 98.6% combined ratio. Best's updated estimate for insurers' net premiums written, including personal lines, remains relatively unchanged.

Hartford shares fall
amid concerns

Shares of the Hartford Financial Services Group Inc. plunged 51% last week to close at \$27.75 on

See **IN BRIEF** page 33

SPOTLIGHT

SOLVENCY & SECURITY

Risk managers strive to look beyond ratings as they seek



strong insurers; agencies update models; capital changes in Europe expected to benefit buyers; insurance industry divided on national approach for natural catastrophes. **Page 10**

AIG plans focus on P/C business

Difficult credit market may challenge efforts to repay loan through asset sales, analysts say

By **JUDY GREENWALD**

NEW YORK—American International Group Inc. last week formally announced plans to slim down to an insurer focused largely on core property/casualty insurance businesses, although questions remain as to how easily its earmarked assets will be sold.

Analysts question how much the company will be able to raise from selling operations amid difficult conditions in the credit market.

And time is of the essence for AIG, since it has less than two years to repay, at considerable interest rates, any funds borrowed from the \$85 billion credit facility extended last month by the Federal Reserve

Bank as part of the government's rescue plan for the insurer. As of Sept. 30, AIG had drawn \$61 billion from the loan.

In setting out AIG's plan, Chairman and Chief Executive Officer Edward M. Liddy last week said the company intends to sell off everything

but its core commercial property/casualty insurance and foreign general insurance businesses, while retaining a "continuing ownership interest" in its foreign life insurance operations.



"Everything else that doesn't fit under that definition we are considering for sale," Mr. Liddy said during a webcast with analysts last Friday.

AIG is seeking funds to repay the Federal Reserve loan and to generate enough capital for an "appropriate

corporate structure going forward," he said.

He stressed during the call that AIG's property/casualty operations have not lost large numbers of policyholders because of the recent

uncertainty that has dogged the insurer.

"Our goal is to emerge from this process in a timely fashion as a small, but nimble company," Mr. Liddy said. He noted the operations that will remain with AIG generated more than \$40 billion in 2007 revenues.

"This is going to be a formidable company," he said.

Meanwhile, AIG is working on a number of alternatives for its financial products and for its securities lending program, the company said. Under the latter, AIG lends securities on behalf of its clients as an investment strategy, according

See **AIG** page 32

RIMS salary survey shows CROs on top

Role of risk managers grows more complex

By **KRISTIN GUNDERSON HUNT**

The average total compensation of chief risk officers and vps of risk management is \$220,200, according to the Risk & Insurance Management Society Inc.'s annual compensation survey.

The 2008 Risk Management Compensation Survey released last week provides average salary and compensation information for chief risk officers for the first time, in addition to its regular survey of risk management salaries.

Mike McDonald, a member of the RIMS board of directors and vp of risk management at Quality Distribution Inc., in Tampa, Fla., said CRO data wasn't included in previ-

ous studies by New York-based RIMS because there weren't enough officers to provide statistically meaningful information.

"The chief risk officer designation within corporations is a fairly recent development," Mr. McDonald said. "If you go back five years, you never heard the term CRO. I don't know if anyone ever heard that title."

Risk management professionals holding CRO or vp of risk management titles received the highest compensation, according to the survey. At a U.S.-based company with more than \$1 billion in annual revenue, their average base salary is

See **SALARY** page 32

BANKING ON A DEAL

If Wells Fargo buys Wachovia, it would boost the bank's insurance brokerage business



**WELLS FARGO
INSURANCE
SERVICES INC.**

Headquarters: **CHICAGO**
2007 brokerage revenue: **\$1.28B**
Employees: **7,273**
Offices: **171**
Locations: **37 STATES**

Source: BI Survey



**WACHOVIA
INSURANCE
SERVICES INC.**

Headquarters: **CHARLOTTE, N.C.**
2007 brokerage revenues: **\$422.5M**
Employees: **1,309**
Offices: **42**
Locations: **20 STATES**

Bank deal would boost Wells Fargo broker unit

But Citigroup vows to fight rival for Wachovia

By **SALLY ROBERTS**

CHARLOTTE, N.C.—Brokerage Wachovia Insurance Services Inc. is likely to come under new ownership after its bank parent last week became the latest victim of the ongoing financial crisis.

The exact identity of that owner, though, is not clear.

Under a deal announced Friday between Wells Fargo & Co. and Wachovia Corp., the Charlotte, N.C.-based insurance brokerage would become part of Wells Fargo

Insurance Services Inc., the world's fifth-largest brokerage.

The \$15.1 billion all-stock bank deal effectively scrapped a \$2.2 billion government-assisted deal reached early last week between Wachovia and Citigroup Inc. Under that deal, Wachovia would have sold its banking operations to Citigroup and retained its asset management, investment brokerage and insurance brokerage operations, which observers said would likely

See **BROKERS** page 33

INDEX

Advertiser Index	31
Business Resources	26
Commentary	6
End Page	34
International	28
Letters	8
Opinions	8
Professional Marketplace	26
Stocks	33

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On the Web

QUESTIONS & ANSWERS

Zlatkus, Schmitt interviews online

Business Insurance adds to its series of in-depth interviews of industry leaders with discussions with Lizabeth H. Zlatkus of Hartford Financial Services Group Inc. and Karen Schmitt of GMAC Re. For Ms. Zlatkus' expanded podcast interview, go to www.BusinessInsurance.com/audio. To read Ms. Schmitt's full interview, go to www.BusinessInsurance.com/QandA.

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Business Insurance (ISSN 0007-6864) Vol. 42, No. 40, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance* Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$5 a copy and \$97 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2008 by Crain Communications Inc.



REUTERS

Speaker of the House Nancy Pelosi, D-Calif., holds a copy of the \$700 billion financial bailout bill which the House passed Friday. Also pictured are, from left, Rep. Barney Frank, D-Mass.; Rep. James Clyburn, D-S.C.; Rep. Steny Hoyer, D-Md.; Rep. Rahm Emanuel, D-Ill.; and Rep. John Larson, D-Conn. President Bush signed the bill, which will allow the Treasury Department to buy distressed assets from weakened financial institutions.

Easier credit helps insurers

But reputations could suffer for firms who tap funds

By MARK A. HOFMANN

WASHINGTON—The \$700 billion economic bailout passed by Congress late last week will likely benefit property/casualty insurers by freeing up credit, but any insurers that make use of the government funds to clean up their balance sheets will likely suffer reputational damage, some observers say.

The bailout approved by both houses of Congress and signed by President Bush last week would allow the Treasury Department to buy as much as \$700 billion of bad assets from weakened financial institutions. It also contains tax breaks for businesses and individuals as well as a temporary increase in the maximum amount of federal deposit insurance available for any single account.

The subprime crisis already has hit individual insurers—most notably American International Group Inc., which was granted

a government loan of to \$85 billion to help it recover from mortgage-related losses.

But property/casualty insurers are not likely to be among the prime beneficiaries of the latest bailout. That's due in large part to P/C insurers generally not having the same exposure to subprime mortgage-related losses as other financial institutions.

"In terms of the credit bailout, logic says for the most part the industry should not have a material exposure to any of this subprime junk," said Myron Picoult, an independent insurance consultant. He said there are some individual exceptions, and "bottom line, there will be some stuff that has to be adjusted."

But "it's hard to believe that it would be of any significant consequence," said Mr. Picoult. "That being said...the attention paid

See **BAILOUT** page 31

BAILOUT

Mental parity becomes law as part of bill

Cost expected to be modest

By JERRY GEISEL

WASHINGTON—Group health plans soon will have to provide the same coverage for mental disorders as they do for other medical illnesses, under a new benefits parity law.

President Bush last Friday signed the parity legislation as part of a massive financial services bailout bill that Congress approved last week (see related story).

The measure, H.R. 1424, will force most health care plans to change their coverage terms. For example, plans no longer will be allowed to limit the number of annual outpatient visits for treatment of mental disorders, while not imposing a comparable limit on the number of outpatient visits for other medical problems. Many plans currently use that approach.

"We are ushering in a new era of health care for those with mental illnesses. No longer will we allow mental health to be treated as a stepchild in the health care system," Sen. Pete Domenici, R-N.M., said in a statement following House passage of the legislation.

While the plan changes would be extensive, the cost impact is expected to be modest. The Congressional Budget Office last year estimated that enactment of a similar bill would boost health insurance premiums by an average of about 0.2% a year.

See **PARITY** page 31

Appeals court OKs San Francisco health mandate

9th Circuit says spending law not pre-empted by ERISA; fight likely headed to Supreme Court

By JERRY GEISEL

SAN FRANCISCO—The 9th U.S. Circuit Court of Appeals' ruling last week that San Francisco's health care spending mandate is not pre-empted by the Employee Retirement Income Security Act could set the stage for Supreme Court review and perhaps finally resolve the legality of employer mandates.

In a case that employers nationwide have followed due to its potential impact on the design, cost and administration of corporate benefit plans, a unanimous three-judge appeals court panel ruled that the ordinance does not conflict with ERISA, which pre-empts state and local regulations that relate to employee benefit plans. The 9th Circuit panel reasoned that the spending law does not "create an employee welfare plan."

In its ruling, the panel noted that the ordinance does not require employers to adopt an ERISA plan or other health plan and does not require "any employer to provide specific benefits through an existing ERISA plan or other health plan."

Few benefit experts were surprised by the ruling. A ruling earlier this year by the same three-judge panel that allowed San Francisco to implement its law pending a final ruling foreshadowed the latest decision.

Appeals court Judge William Fletcher wrote in that earlier ruling that San Francisco has a "strong likelihood" of prevailing in its argument that ERISA does not pre-empt

the spending ordinance.

In light of that earlier ruling, "I would have been surprised if the appeals court had taken another approach," said J.D. Piro, an attorney with Hewitt Associates Inc. in Norwalk, Conn.

"This is entirely expected, but completely disappointing," said Andy Anderson, of counsel with Morgan, Lewis & Bockius L.L.P. in Chicago.

While not surprised by the ruling, experts say if the decision stands, it could be devastating to employers as cities and states impose their own benefit mandates on employer plans, said Paul Dennett, senior vp-health care reform with the American Benefits

Council in Washington.

"The floodgates would be opened. There could be hundreds, if not thousands, of requirements. There is no way that employers could comply with that kind of burden," Mr. Dennett said.

"Employers would have to budget more time and money not just on delivering benefits, but keeping track of the requirements, which would be constantly changing. HR departments would melt down" under such a burden, said Mr. Anderson.

Under the San Francisco ordinance, which went into effect in January, employers in the city must contribute to health care coverage to avoid fines.

This year, large employers must make health care expenditures of at

See **MANDATE** page 30

\$1.76

PER HOUR per eligible employee: The amount San Francisco businesses must spend on health care to avoid fines under a benefits mandate passed by the city.

ADA changes spark concerns over employment practices

Amendment expands number of workers listed as disabled

By MARK A. HOFMANN

WASHINGTON—Employers should review their employment practices to ensure they comply with a business-backed law that expands protections of the Americans with Disabilities Act, employment law experts say.

The measure signed into law last month expands the numbers of workers who could qualify as disabled under the ADA, they say. At a minimum, employers should make

sure they are able to offer accommodations to workers who qualify as disabled under the law.

The ADA Amendments Act of 2008 enjoyed the backing of major employer groups, such as the U.S. Chamber of Commerce and the National Assn. of Manufacturers. Proponents, which included the Bush administration as well as groups representing the disabled, said the legislation was necessary to restore the Americans with Disabilities Act to its original intent. Advocates hold that a series of court decisions over the past decade restricted the



BI/TODD WINTERS

'Employers will have to go back to the drawing board on job descriptions and protocols to provide reasonable accommodation.'

Gerald L. Maatman Jr.,
Seyfarth Shaw L.L.P.

ADA's protections far beyond what its drafters intended when it was enacted in 1990.

Among other things, the amended law requires judges to read the

ADA broadly. For example, the use of mitigating devices such as prosthetics or medicines cannot be considered when determining whether an individual is entitled to ADA protections.

The law also expands ADA protections to individuals with episodic impairments or conditions that are in remission if the impairment while in its active state would

substantially limit a major life activity.

Although business groups welcomed the law as a necessary compromise between employers and

the disabled, the measure presents new burdens for employers, according to employment law experts.

"I thought this was a big deal," said Gerald L. Maatman Jr., a partner in the Chicago-based law firm Seyfarth Shaw L.L.P. "The amendments necessitate that employers will have to go back to the drawing board on job descriptions and protocols to provide reasonable accommodation decisions. The burdens will be significant but well worth the effort in terms of proactive steps to avoid future litigation," he said.

In a letter to clients, Mr. Maatman said the law greatly increases

See **ADA** page 31



AP PHOTOS

The NTSB has cited truck driver fatigue as the cause of a 2005 crash on Interstate 94 in Wisconsin in which a bus carrying members of a high school marching band hit an overturned truck—killing five aboard the bus.

NTSB pushes for action to detect driver fatigue

Tools available to reduce accidents, says agency

By JEFF CASALE

WASHINGTON—The National Transportation Safety Board has called for installing technology aboard new commercial vehicles such as buses and trucks to help detect driver fatigue and avoid collisions.

In mid-September, the NTSB called on the National Highway Traffic Safety Administration to require onboard technology in commercial vehicles to avoid fatal accidents such as an Oct. 16, 2005, crash on Interstate 94 near Osseo, Wis. In that incident, the driver of a truck operated by Whole Foods Market Group Inc. fell asleep and his truck rolled over. A bus carrying members of a Chippewa Falls, Wis., high school marching band collided with the truck about 2 a.m., killing the bus driver and five passengers, the NTSB said.

The NTSB determined that the truck driver was fatigued and didn't use his off-duty time to obtain suffi-

cient sleep to safely operate his vehicle. Additionally, the NTSB said the driver of the bus could not see the overturned truck because of low-light conditions at the time of the crash.

"In this tragic accident, we can clearly see how the advanced vehicle safety technologies, some of which are already developed and in use, could have made a big difference here," Mark Rosenker, the NTSB's acting chairman, said in a statement.

The NTSB and NHTSA have asked the Federal Motor Carrier Safety Assn. to develop a plan to get fatigue-detecting and collision-warning systems with active braking controls into commercial vehicles. If it's determined these technologies help mitigate performance errors and improve driving behavior, they could seek to make these systems mandatory on all new com-

See **TRUCKING** page 10

IRS clarifies FSA rules for reservists

Agency outlines rules allowing called-up workers to tap unused funds

By JERRY GEISEL

WASHINGTON—Internal Revenue Service guidance released last week answers many employer questions about a new law that allows reservists called for military service to take the balances in their health care flexible spending accounts as cash distributions.

Instead of forfeiting balances, which could happen in such situations, the law—the Heroes Earnings Assistance and Relief Tax Act of 2008—allows employers to amend their FSA programs to allow reservists called up for at least six months of active duty to take their FSA balances as taxable distributions.

Prior to the new law, FSA balance forfeitures were not uncommon. One reason for the forfeitures was that activated employees and their families are entitled to enroll in Tri-Care, a Department of Defense

health care program that provides generous benefits with no premium contributions. As a result, activated employees have a significantly reduced need for FSAs, which provide reimbursement for uncovered health care expenses.



In addition, workers called up for active duty may be deployed in countries, such as Iraq, where they would have limited opportunities to use health care services eligible for FSA reimbursement.

The longstanding problem of FSA forfeitures by employees called up for active duty has increased in recent years as more reservists have been activated due to the conflicts

in Iraq and Afghanistan. Currently, just over 118,000 individuals from reserve and National Guard units are on active duty, according to the Department of Defense.

Employers, though, have raised several questions about the new law, and those issues have been clarified in IRS Notice 2008-82, benefit experts say.

"This is a common-sense interpretation of the law," said Andy Anderson, of counsel with Morgan, Lewis & Bockius L.L.P. in Chicago.

"The guidance is very practical and flexible," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Among other things, the guidance makes clear that while the distribution feature is voluntary, employers that add such a feature must formally amend their FSA program to incorporate it.

See **IRS** page 30

Mass. eases health assessment rules

State pulls back from tougher, two-prong coverage test for employers

By JERRY GEISEL

BOSTON—Massachusetts health care regulators last week agreed to ease and delay proposed regulations that would have subjected more employers to large financial assessments to help fund coverage for uninsured state residents.

Under the current rules, employers with at least 11 full-time employees in the state are required to pass one of two tests to prove they are making a "fair and reasonable" health insurance premium contribution to avoid an annual assessment of \$295 per employee.

Revenues from the assessments, which are running lower than earlier projections, are used to subsidize premiums in a state program that provides coverage for the unin-

sured. The program is one of the linchpins of Massachusetts' 2006 landmark health care reform law, which is intended to move the state close to universal coverage. Prior to the 2006 law taking effect, as many as 650,000 residents were uninsured. Since then, 439,000 previously uninsured residents have obtained coverage, according to state officials.

Under the current rule, adopted in 2007 by the Massachusetts Division of Health Care Finance and Policy, an employer is exempt from the annual assessment if at least 25% of full-time employees are enrolled in its health plans or if the employer pays at least 33% of the premium for individual coverage for employees within 90 days of their starting work. Nearly all

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

But Massachusetts Gov. Deval Patrick proposed in July that, effective Oct. 1, employers with at least 11 employees be required to pass both prongs of the so-called Fair Share Contribution test to be exempt from the \$295 assessment.

That change would have resulted in many more employers being hit with the assessment. Particularly vulnerable would have been smaller firms in industries with high staff turnover in which employers have lengthy waiting periods before new employees are eligible for coverage.

Responding to lobbying from small employer trade groups, the

See **MASS** page 30

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Schwarzenegger vetoes comp bills

Governor says one measure too expensive, the other unnecessary

By SALLY ROBERTS

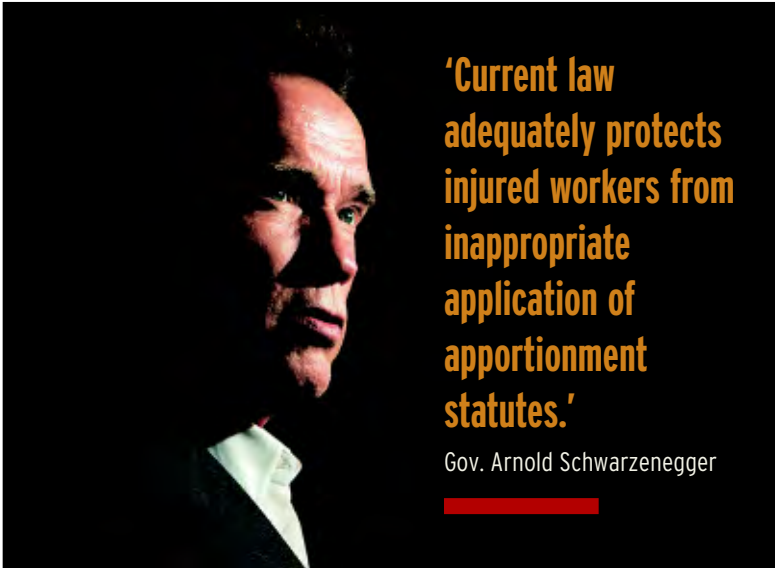
SACRAMENTO, Calif.—California Gov. Arnold Schwarzenegger last week vetoed two bills that opponents said would have rolled back workers compensation reforms in California and increased costs.

The two California Senate bills would have changed two different areas of workers comp legislation, with one increasing permanent disability payments and the other adding various qualifications to apportionment calculations.

Supporters of the legislation said the measures would ensure that workers suffering from permanent disability injuries are justly compensated and not unfairly denied benefits.

S.B. 1717 would have doubled permanent disability benefit payments by increasing, over three years, the number of weeks injured workers receive benefits. It also would have repealed a portion of a return-to-work incentive employers sought as part of workers comp reforms signed into law in 2004.

In vetoing the bill, Gov. Schwarzenegger said he could not justify a “billion-dollar benefit increase” at a time when medical costs in the workers comp system



REUTERS

continue to climb. He noted the state’s Workers’ Compensation Insurance Rating Bureau’s recommended 16% increase in premiums in 2009.

S.B. 1115 would have prohibited discrimination on the basis of race, religion, color, national origin, age, gender, marital status, sex or genetic predisposition when doctors apportion a claim’s medical causation for the purpose of determining an employer’s liability for perma-

nent disability awards.

Gov. Schwarzenegger said that while he supports the intention of the measure, he did not view it as necessary.

“Current law, as well as court rulings, adequately protects injured workers from inappropriate application of apportionment statutes,” he said, noting that he was concerned the bill would have inadvertently created new ambiguities and result in increased litigation.

Commentary

Financial crisis shows real need for ERM

As I write this, the U.S. House of Representatives has just joined the Senate in passing a \$700 billion U.S. financial system rescue plan, with President Bush quickly signing the measure into law.

Of course, last Monday, the House had prompted a record stock market loss by rejecting a version of the measure that earlier in the day had been considered a done deal.

Given how quickly things seem to change in Washington—and, come to think of it, in the financial services business—these days, there’s no telling where things might stand by the time you read this piece.

I’ve had some interesting conversations in recent days with a lot of people with considerable insight into the current financial mess, and often with very different opinions on what should be done to steer us out of it.

One of the things we’ve discussed is the fact that most Americans’ opinions on the rescue package the Bush administration presented were formed in the absence of much real information about just what is happening to our economy and its troubled financial institutions, how the administration’s proposal might remedy the problem or detailed accounts of possible alternatives.

And it’s not surprising that when first confronted with the rescue proposal—quickly labeled a “bailout” even in much straight news coverage—many Americans found themselves experiencing a case of mental whiplash.

After hearing for months that the fundamentals of the economy were strong (individual experiences of many to the contrary), it’s understandable why many Americans would find the rescue plan failing the smell test when they’re suddenly told that if a bill isn’t passed immediately we’ll be on a fast track to economic calamity.

I think both sides in the financial rescue debate and both sides of the aisle have been guilty of a lack of nuance in communicating issues surrounding the rescue plan. And, while the American public—and many of our news outlets—often aren’t big on nuance, I think public attitudes about the financial rescue plan underscore the value of effective communications.

It’s unreasonable to expect every American to be an economist or an MBA—what a country that would be—but a little more substance rather than spin probably would have helped many as they tried to make sense of current efforts to inoculate the economy from further effects of the sub-



RODD
ZOLKOS

Senior Editor Rodd Zolkos
can be reached at:
rzkos@businessinsurance.com

prime mortgage plague.

As we drag ourselves out of this mess, I think it behooves not just our political leaders but corporate leaders as well to give a little more thought to effective communications. Indeed, it might be essential.

I suspect that part of the fallout from all we’ve experienced will be a renewed emphasis on enterprise risk management. I know efforts have been underway—and some companies have made real

It’s understandable why many Americans would find the rescue plan failing the smell test.

progress—but I think the lesson some will take away from this crisis is the need for real ERM, risk management that truly identifies exposures across the organization and possible concentrations of risk, doing all of that within the context of a pretty thorough collection of what-ifs.

Doing so effectively takes effective communication. Organizational silos, data inconsistency or inadequacy or a simple lack of commitment from the top to demanding everyone’s participation in identifying and communicating potential exposures in their areas of the business are obstacles to successful ERM.

I think it’s also reasonable to expect that going forward companies’ various stakeholders—be they customers or shareholders—are going to be demanding even more in terms of transparency, including companies communicating effectively about risks they’ve identified and the steps they’re taking to manage or eliminate them.

And, going forward, it’s probably worth expecting a bit better communications from our elected officials as well.

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Arch Insurance Company (a Missouri corporation, NAIC # 11150) had admitted assets of \$1.5 billion, total liabilities of \$962.7 million and surplus to policyholders of \$569.6 million, as shown in the most recent 2008 Quarterly Statement.

Arch Specialty Insurance Company (a Nebraska corporation, NAIC #21199) had admitted assets of \$463.1 million, total liabilities of \$169.9 million and surplus to policyholders of \$293.2 million, as shown in the most recent 2008 Quarterly Statement.

Arch Excess & Surplus Insurance Company (a Nebraska corporation, NAIC # 10946) had admitted assets of \$28.8 million, total liabilities of \$2.9 million and surplus to policyholders of \$25.8 million, as shown in the most recent 2008 Quarterly Statement.

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Business Insurance OPINIONS

Court ruling ignores clear intent of ERISA

A 9TH U.S. CIRCUIT COURT of Appeals decision last week that San Francisco's health care spending law is not pre-empted by the Employee Retirement Income Security Act is another example of how the court got its reputation of being the most overturned of the nation's appeals courts.

ERISA's language is direct: It says that ERISA pre-empts state and local laws and rules that relate to employee benefit plans.

There is no mystery why ERISA's drafters included that language. Federal legislators were concerned that multistate employers would be subjected to a patchwork of benefit rules if states and cities were free to impose requirements on benefit plans.

That would make it impossible for national employers to offer uniform employee benefit plans and would greatly increase administrative costs. Certainly, ERISA's drafters understood that the cost of such a massive compliance effort would be paid for by a reduction in benefits that employers provide to their employees, a result the drafters wanted to avoid.

San Francisco's law requires employers to spend roughly \$3,500 a year per eligible employee on health care—a requirement that can be satisfied in a variety of ways. Aside from the spending mandate, the San Francisco law subjects employers to numerous and complex reporting requirements.

If that mandate and its requirements do not relate to employee benefit plans, we don't know what does.

Because of its importance and that it conflicts with another appeals court ruling on a Maryland health care spending law, this case cries out for review by the U.S. Supreme Court.

We hope the high court takes up the case and puts an end to the San Francisco law and also blocks other cities and states that would try to follow in San Francisco's footsteps.

Bailout can mark start of regulatory overhaul

ENACTMENT OF A \$700 BILLION federal bailout of the financial services industry raises the questions, "Now what?" and "Is \$700 billion enough?"

Proponents of the legislation argued that doing nothing would have catastrophic consequences for the world economy in general and the United States in particular. That's hard to counter, given the volatility in financial markets due to lingering uncertainty.

The bailout is intended to create a market for the currently "illiquid" credit derivatives that led to the meltdown on Wall Street and caused havoc worldwide. A disturbing facet of the market crisis is that nobody knows the true size of the problem.

To get this legislation passed, the Senate added sweetener, including an increase in Federal Deposit Insurance Corp. limits to \$250,000 and mental health care benefits parity requirements (see story, page 3). While it rejected an initial plan early last week, the House reversed course on Friday and approved the sweetened bill.

We think the bailout is merely a starting point for work that improves regulation and financial security. A dangerous combination of self-regulation and unchecked greed, coupled with a now-evident failure to assess risk, led to the financial crisis. Wall Street firms made lots of money selling securities built on assumptions that proved untrue. U.S. taxpayers will now pay a steep price to correct such misperceptions.

It's vital that all companies understand the risks they assume. For insurers and others, we hope this bailout leads to fruitful work to prevent the need for future ones.

*This case cries out
for review by the
U.S. Supreme Court.*



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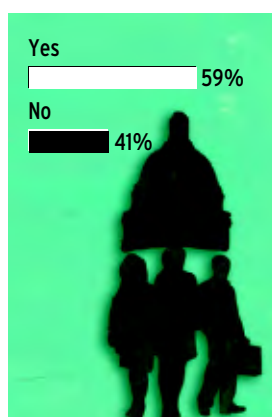
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THIS WEEK'S RESULTS

Q In light of the financial crisis, should there be federal regulation of insurers?



NEXT WEEK'S QUESTION

Q: Has your company begun reviewing its job descriptions and reasonable accommodation protocols to assure compliance with the new ADA Amendments Act?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

LETTERS

Federal oversight like praying for rain during a flood

TO THE EDITOR: In a recent piece titled "Turmoil Shows Federal Oversight Unavoidable," *Business Insurance* falsely claims that the state-regulated "insurance operations" of AIG "weathered the storm" when the noninsurance federally regulated operations collapsed because it "wasn't adequately regulated."

So *Business Insurance's* suggested solution is to replace the successful regulators (state Departments of Insurance) with the same folks (the feds) who were just caught asleep at the wheel and are largely to blame for the nation's crisis on Wall Street? Is this publication seriously saying that AIG's noninsurance segments were so poorly regulated on the federal government's watch that it led to billions of dollars of bailout money, so now we should also toss them the insurance portion to destroy?

Maybe next time it will take trillions of taxpayer bailout money to save it. This makes about as much sense to me as praying for more rain during a flood.

Forrest Gump's mom said it best, "Stupid is as stupid does." If we allow the feds to once again demonstrate their incompetence by taking over the regulation of the insurance industry, we (the taxpayers) are being played for stupid.

The insurance industry is stable, largely due to the state regulators who continue to do their job and work with the industry to protect consumers.

The last thing we need is the federal government trying to fix an industry that isn't broken.

Lanny L. Hair

Executive Vp

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ADVERTISING: Boston: 617-292-4856; Chicago: 312-649-5276; Los Angeles 323-370-2405; New York: 212-210-0133

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by
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Trucking: NTSB calls for mandating collision-avoidance systems

CONTINUED FROM PAGE 4

mercial vehicles.

Andy Walker, vp of risk management for Oklahoma Tank Lines/United Petroleum Transports Inc., said his fleet already uses some of this technology. Several of the 550 trucks for the Oklahoma City-based fuel hauling company are equipped with Eaton Corp.'s VORAD Roadrangers, a radar system that contains a collision warning system and adaptive cruise control. The technology plus 90-day vehicle safety inspections and ongoing driver training help keep his fleet, drivers and the general public safe, he said.

"All you need is one bad wreck, one fatality. And if you're a small carrier and not insured properly, you're going to be closing" your business, Mr. Walker said.

VORAD, or vehicle onboard radar, is a forward-looking system that can see a target, such as another vehicle, up to 500 feet away. Once the truck has closed to within 350 feet of the target, VORAD begins calculating the distance and speed between the truck and target. Alarms will alert the driver when the distance reduces between the two vehicles starting at 3.25 seconds to one-half second.

The collision warning system can

work in tandem with VORAD's adaptive cruise control option, said Jack Patterson, product manager in Eaton's Galesburg, Mich., corporate office.

"Once the radar sees an object in front of it, the adaptive cruise control feature will help slow the engine and keep a safe distance from the...vehicle," Mr. Patterson said. "It can precharge the truck's air-brake system to help slow the vehicle, but it will not stop it."

Added expense

Mr. Patterson said technology such as VORAD is a "discretionary expense" for some trucking compa-

nies, especially with rising fuel prices and a slumping economy. The average cost for a collision-warning system ranges from \$1,000 to \$3,000 per vehicle; adaptive cruise control systems are anywhere between \$350 and \$400 per unit when integrated with collision-warning systems, according to the FMCSA.

"Fleets with safety as a paramount priority will have these systems," Mr. Patterson said. Sometimes, though, it takes a major crash or fatality before a fleet considers using the devices, he said.

Don Osterberg, vp of safety and driver training with Schneider National Inc., said safety is a "com-

plex challenge" for all businesses, but is especially challenging for the transportation industry.

Green Bay, Wis.-based Schneider's fleet has several trucks outfitted with safety technology that includes collision-warning systems, in-cab driver monitors, lane departure monitors and rollover stabilization units. Additionally, Schneider's 15,000 drivers undergo extensive driver training and assessments, which include driver simulations that allow the company and driver to critique his or her skills.

Despite all the technological advances, which Mr. Osterberg said are positively affecting Schneider and the transportation industry in general, these instruments are not perfect.

"We are constantly searching for a Holy Grail in safety technology, but we have yet to find one that is going to solve all our safety problems. There isn't a perfect safety technology solution out there yet," Mr. Osterberg said.

In separate testing last October and again in February of a prototype integrated warning system on light vehicles, researchers told the NHTSA that 71% of the alerts issued were "nuisance" or spurious warnings despite the system meeting operating guidelines.

Technology aside, basic monitoring of wear and tear on vehicles and ongoing driver training continue to be staples of improving commercial vehicle safety.

Dave Melton, director of transportation and technical consulting with Boston-based Liberty Mutual Research Institute for Safety, said a well-kept log of vehicle maintenance is a good source to check when monitoring driver behavior. For example, if brake wear is worse than normal, a driver may be braking late or aggressively.

"I'm pleased with the results that in-cab technology can provide and wouldn't mind if more truckers and trucking companies used it more often as a way to help change driver behaviors, as long as it was not used as a club," Mr. Melton said.

Driver fatigue is a longtime issue with which the trucking industry has battled. In 2003, the FMCSA changed its hours-of-service regulations for the first time in nearly 60 years.

Drivers can drive a maximum of 11 hours after 10 consecutive hours off duty. Also, drivers may not drive more than 70 hours in eight days.

The Arlington, Va.-based American Trucking Assns. Inc., which includes national and state-level trucking groups, agrees that onboard technology will help with combating fatigue, but also said the more obvious preventive approach is for commercial drivers to get enough rest when they are off-duty.

Schneider drivers currently keep a paper log of their work hours and rest hours, Mr. Osterberg said, adding that company also electronically monitors trucks to help combat against false logs. Next summer, Schneider is going to install electronic log books in truck cabs to monitor work and rest hours. Mr. Osterberg said he hopes this is a trend that becomes mandatory.

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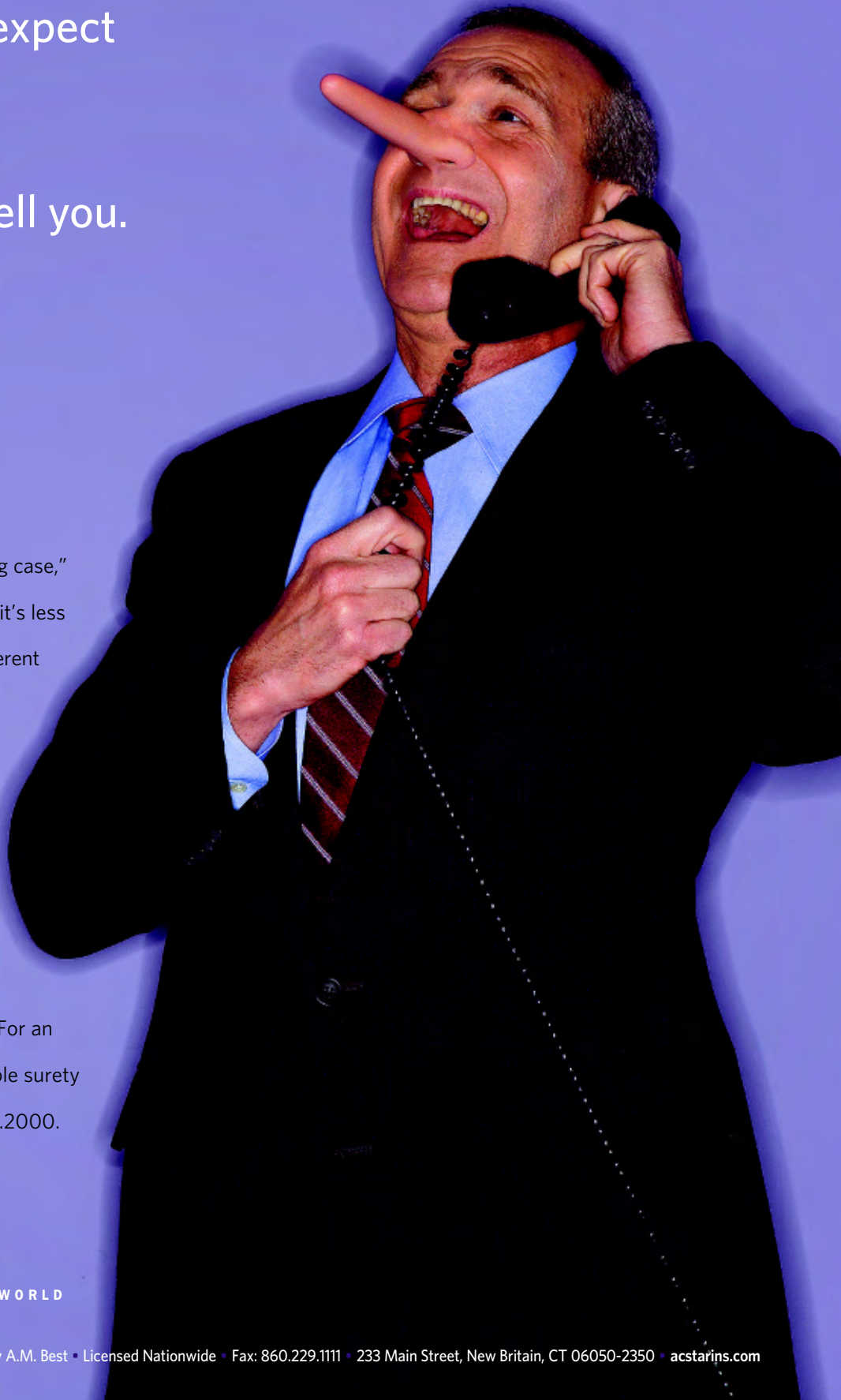
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Solvency —TESTED—

Risk managers look beyond insurer ratings

With long history of unexpected failures, multiple tools needed to assess financial security

By **DAVE LENCKUS**

The quick and unexpected failures of Reliance Insurance Co. and Kemper Insurance Cos. earlier this decade convinced many sophisticated risk managers that they could not rely solely on rating agencies' analyses of insurers' claims-paying ability.

The shocking downward spiral of gigantic insurance holding company American International Group Inc. in September not only validated risk managers' cautious use of ratings but also raised another, more troubling concern, they said.

"If AIG is at risk, gosh, anybody could be at risk," said James D. Hinton, echoing a fear voiced by other risk managers.

"It probably taught us that ratings don't mean much in reality," said Mr. Hinton, vp-risk and insurance at Nashville, Tenn.-based HCA Inc.

But officials at two rating agencies and insurer consultants noted that AIG's troubles are traceable to a financial products unit that wrote risky financial guarantee business and that the company's insurance subsidiaries are not in financial trouble.

Meanwhile, the rating agencies continue to drill deeper into underwriters' numbers and processes as they strive to provide increasingly sophisticated analyses of insurers' claims-paying ability.

In time, rating agencies hope to move beyond an analysis of the volatility of insurers' books of business and investment portfolios and provide a sense of insurance companies' so-called embedded value, which would help ratings users gauge insurers' future earnings and, therefore, their ability to pay claims and survive.

Yet no rating agency evaluated the subprime risk for the AIG parent

company "and said this is terrible," said Lance Ewing, vp-risk management at Harrah's Entertainment Inc. in Cordova, Tenn. Defaulted subprime mortgages, a significant and well-established economic drag in the United States for more than two years, underpinned the financial guarantee business that brought AIG to the brink of bankruptcy (*BI*, Sept. 22; Sept. 29).

"So where were the rating agencies to say, 'Be cautious,'" to all insurers with either subprime mortgage-related business or investments? Mr. Ewing asked.

Officials with rating agencies A.M. Best Co. Inc. in Oldwick, N.J., and Standard & Poor's Corp. in New York would not discuss how they missed AIG's troubles until this summer, when some downgrading began, though not severe enough to alarm risk managers. The agencies, however, did respond to other questions about the evolution of their ratings processes.

Fitch Ratings and Moody's Investors Service, both based in New York, would not comment at all for this report, saying officials were consumed with the developments at AIG.

Risk managers interviewed did not claim they had all the answers on how to evaluate insurers. They described their individual methods as beginning by consulting rating agencies' analyses, moving on to other sources and ending with a dash of their own intuition.

Relying on a rating agency alone "is a little presumptive," said Wayne Salen, director of risk management at Labor Finders International Inc. of Palm Beach Gardens, Fla.

Regarding rating agencies' current valuation and modeling efforts, he said,

See **RATINGS** next page



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**RATING AGENCIES UPDATE
FINANCIAL STRENGTH
EVALUATION MODELS** **PAGE 16**

**Q&A WITH THE HARTFORD'S
CHIEF FINANCIAL OFFICER,
LIZABETH H. ZLATKUS** **PAGE 18**

**POLICYHOLDERS TO BENEFIT
FROM INSURERS' SOLVENCY II
EFFORTS** **PAGE 18**

**RISK-BASED CAPITAL IDEAS
OF SOLVENCY II EXPAND
BEYOND EUROPE** **PAGE 20**

**ALL ABOUT TRUST:
Q&A WITH GMAC RE EXEC
KAREN SCHMITT** **PAGE 20**

**INDUSTRY DIVIDED
ON NATIONAL APPROACH
FOR NATURAL CATS** **PAGE 21**

**INSURANCE INDUSTRY
OFFERS SOME SUPPORT
FOR CAT FUNDING** **PAGE 22**

Ratings: Models evolving to give quicker warnings about problems

CONTINUED FROM PREVIOUS PAGE

"I don't think they're there yet."

At first, Mr. Salen said he "got hypersensitive" about looking beyond insurer ratings when Reliance "nosedived" over the course of a few months in 2001. "They went from A-rated to out of business," he said.

"The reality is that rating agencies often are surprised," HCA's Mr. Hinton said. Risk managers, however, have "got to do something" to gauge insurers' claims-paying ability, so rating agencies have to be part of that analysis, he said. "We don't have our own manpower" to mea-

sure that risk.

But, Mr. Ewing said, "you can't put all your eggs in one basket." Insurer ratings are "a piece of the larger puzzle you put together, and you still may not have the whole picture."

Mr. Ewing consults Best, S&P and Fitch ratings, and he reviews insurers' annual reports. He also examines insurers' stock prices and participates in quarterly analyst calls.

Then he sits "eyeball to eyeball with CEOs and CFOs" for the insurers with which he considers placing his company's risks.

"There's a trust factor involved in that," Mr. Ewing said.

HCA risk management counts on its brokers to keep it updated on insurers, Mr. Hinton said.

John Phelps, director-business risk solutions for Blue Cross & Blue Shield of Florida Inc. in Jacksonville, also counts on his brokers' evaluations of insurers. "They've got a big stake in this as well," he said.

He does some analytical legwork of his own. He examines, for example, where insurers are positioned in the market, their marketing practices, their financial results and their management's philosophy.

For example, with Kemper, such an analysis would have shown that

the insurer was running off some business. So risk managers who looked beyond the insurer's high ratings should have come away wary, he said.

In addition, Reliance was a stock company largely "owned by one person," which should have been a warning flag to risk managers, he said.

Mr. Salen said he spends time every day monitoring the marketplace and the published activity of insurers currently writing business for Labor Finders and those the organization may turn to for coverage in the next year or two.

"It's more an intuitive search"

that involves examining the information insurers provide and stock analysts' presentations, he said.

But even when rating agencies have not rated some insurers highly, risk managers in some cases have not been scared away from the companies.

For example, Mr. Hinton occasionally has recommended to HCA's board that the company use insurers with BBB ratings in its earthquake insurance program. Without them, HCA would have had insufficient earthquake limits, Mr. Hinton said.

Mr. Ewing said he persuaded his management to allow him to use Paris-based SCOR S.E. after the insurer was downgraded in 2003. "And they did come back," Mr. Ewing said. "Sometimes you have to go with your instincts, and that's why you're paid to make those decisions."

Rating agencies have attempted to minimize surprises through an evolution in their analysis that began by focusing on operating leverages—or premium to surplus levels—and shifting their analyses nearly two decades ago to risk-based capital models that measure an insurer's capital against the amount the agency calculates the insurer needs based on the riskiness of its business.

In more recent years, the agencies have more formally applied an enterprise risk management framework to their analyses to examine the processes an insurer has in place to manage risk.

In the future, rating agencies want to examine insurers in more sophisticated ways that would give them a picture of insurers' embedded values.

"They're all taking it to the next level," said John L. Ward, chief executive officer of Cincinnati-based private equity and insurer advisory firm Cincinnati Partners L.L.C. "They're trying to get more sophisticated. So they're all taking a unique approach to risk-based capital and trying to improve the framework and make it more predictive in concept."

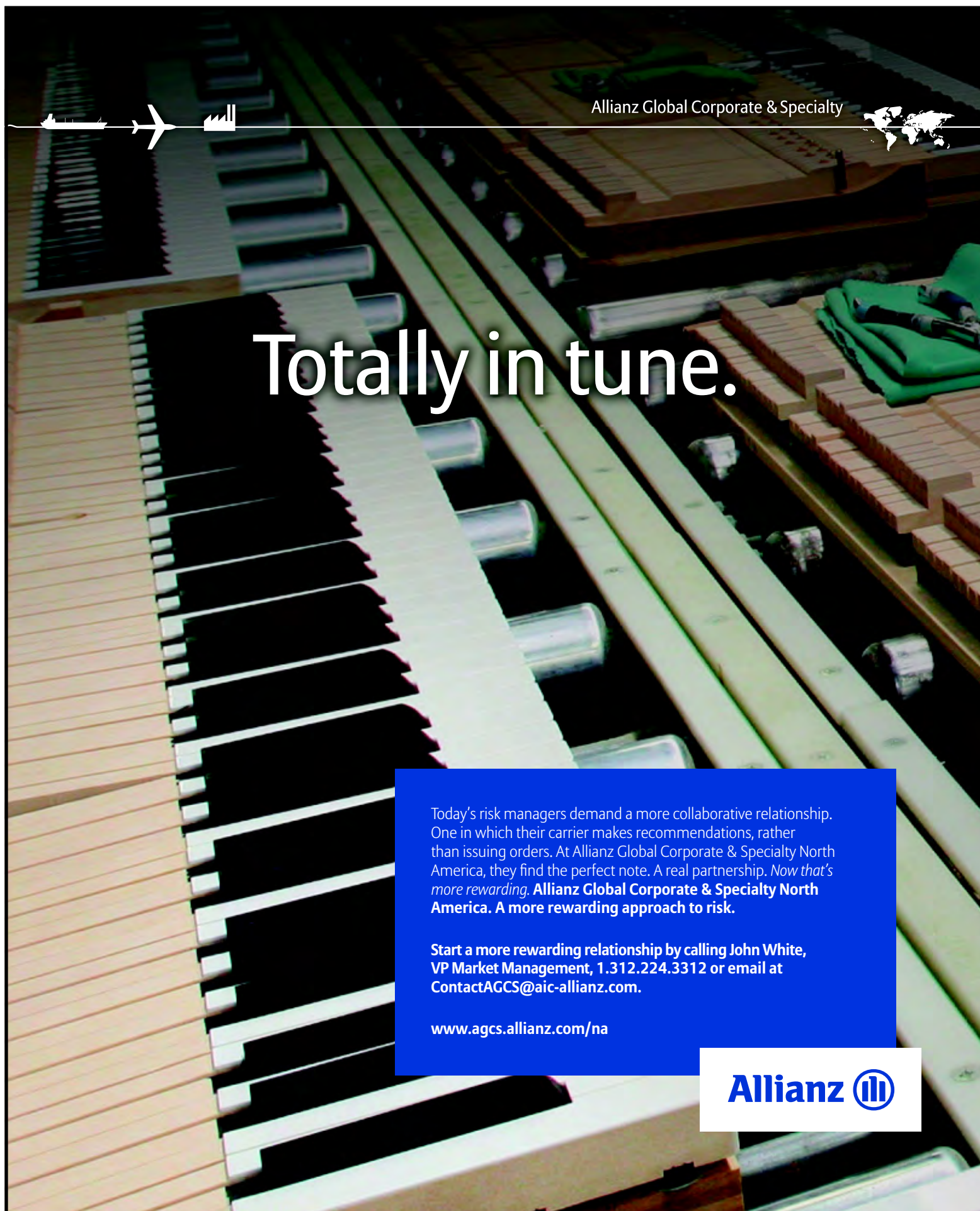
"It's definitely improving, but it's not there yet," Mr. Ward said. "It's not where it ultimately will be," though he does not blame rating agencies for not anticipating that subprime mortgage-related financial guarantee business and investments would explode into a financial crisis.

Howard Stecker, a senior vp with SMART Business Advisory & Consulting L.L.C. in New York, said rating agencies should be "pretty important" to policyholders and investors as they evaluate insurers.

As they make their evaluation processes more sophisticated, rating agencies should be better able to recognize problems like those at AIG much earlier, he said.

But a bad assumption can waylay the best risk evaluation processes, Mr. Stecker said. An example is assuming that property value will always increase. If true, the subprime mess—and AIG's troubles—would not have developed.

"If people don't connect the dots



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Rating agencies start to embrace economic capital modeling

Evaluations of insurers begin to move toward a European-style review of each organization's unique set of risks

By DAVE LENCKUS

Rating agencies are working on the next stages in the evolution of their processes for evaluating insurers' financial strength, which theoretically would result in major advances of their analyses, agency officials and insurer consultants say.

But those improvements are years away from being perfected.

In general, risk-based capital models currently are at the core of rating agencies' analyses.

With this model, agencies com-

pare an insurer's reported capital with a capital figure that the agency calculates the insurer needs, based on various risks the insurer has taken. If the ratio of an insurer's reported capital to the calculated necessary capital either equals or exceeds 1:1, then the insurer is considered adequately capitalized. A lower ratio indicates capitalization problems that could threaten the company's solvency if unexpected losses occur.

Agencies began developing risk-based capital models after a spate of surprising insurer insolvencies in

the late 1980s and early 1990s demonstrated that the agencies' evaluation approach at that time did not adequately gauge insurers' financial strength. At that time, rating agencies evaluated insurers' operating leverage, which typically was expressed as a comparison of their premiums to surplus. Agencies considered a direct underwriter financially healthy if it had a 3:1 premium-to-surplus ratio. A strong ratio for reinsurers was 2:1.

But those ratios did not factor in the volatility of an insurer's lines of

business and various other risks related to its pricing, such as reserve development, reinsurance recoverables, assets and investment portfolio. Those risks can vary substantially from one insurer to another even if the companies have comparable operating leverages, experts said.

While risk-based capital models are designed to recognize the differences in insurers' risk characteristics, the models have shortcomings, said John L. Ward, chief executive officer of Cincinnati-based private equity and insurer advisory firm

Cincinnati Partners L.L.C.

The models use industry averages in evaluating an insurer's risks, Mr. Ward said. But the industry averages for reserve and pricing risks, for example, may not be a fair comparison for a particular insurer because of its unique set of risks.

Risk-based capital modeling also is a historical analysis, rather than a prospective evaluation of how an insurer is likely to perform given certain economic assumptions, Mr.

Continued on next page

Ratings: Err on the side of caution

CONTINUED FROM PAGE 14

and see the risk, people can have the best process in place and it will fail," Mr. Stecker said.

Regardless of their rating agencies' response time to developments at AIG, Best and S&P officials said the organizations are trying to identify and factor in all risks that could sink an insurer or its parent company.

"That's the focus now—looking at all parts of the business where risks lie," including investments, said Joel Silverthorn, a senior financial analyst with Best. "That is indeed what we are doing now."

Referring to S&P's enterprise risk management framework, Managing Director Mark Puccia said, "Enterprise risk management is always going to be a lessons learned approach" and S&P is updating its criteria.

"But we're pretty comfortable with (what) we've got in place. But we can always look to improve our processes," said Mr. Puccia, the global chief criteria officer of S&P's insurance ratings group.

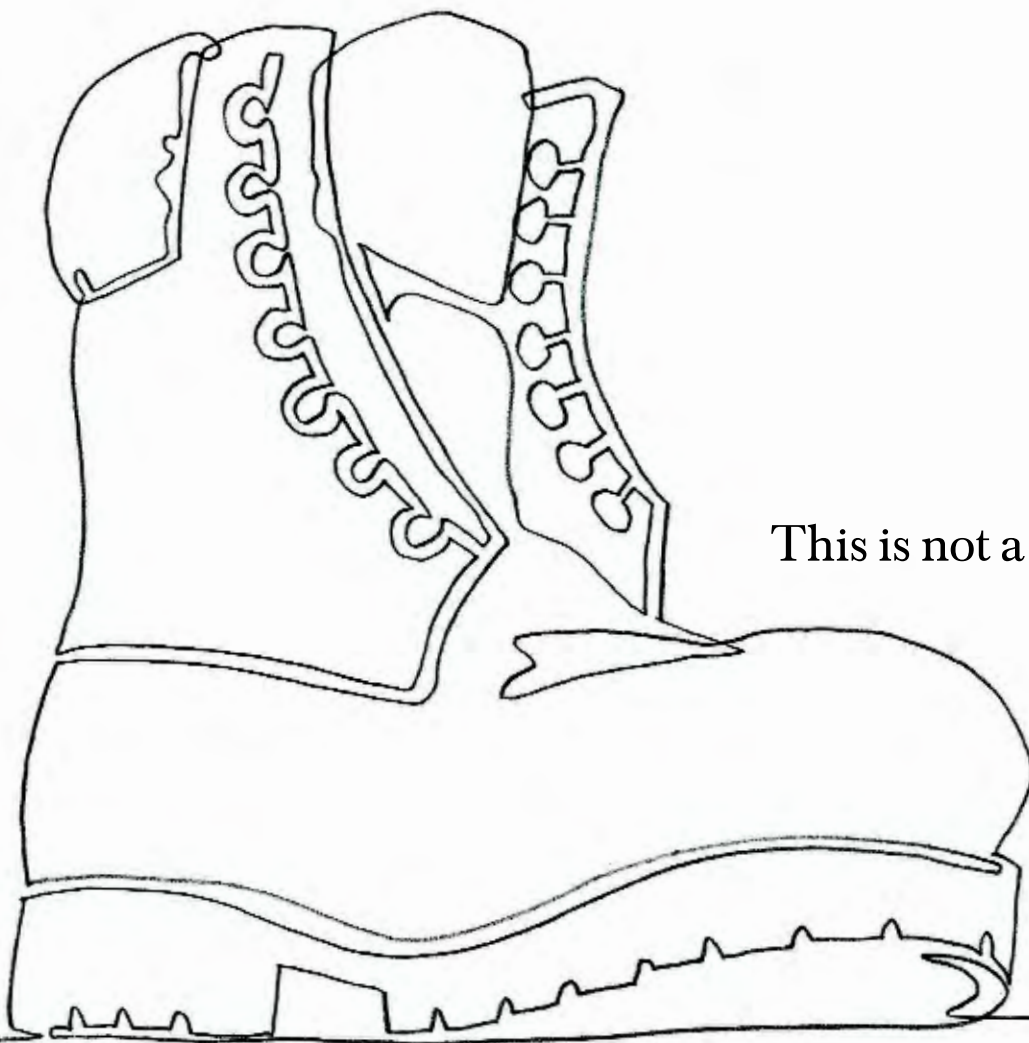
While some insurer failures have come as surprises and rating agencies "could be a little more cognizant of whether insurers are too involved" in high-risk investments or business, the agencies are due some credit, Harrah's Mr. Ewing said.

Over the past three to five years, the agencies have been "fast to downgrade and slow to upgrade" insurers, he said. "They have erred on the side of risk management caution."

And, importantly, "part of the issue is Wall Street saying you've got to move up, move up move" in earnings, which motivates unwise risk-taking, Mr. Ewing said.

Mr. Phelps of Blue Cross was philosophical about insurer insolvencies, rating agencies' ability to rate insurers accurately and what that means to risk managers.

"It's like buying a car" and counting on the dealer to be around to service it over the years, he said. "There are no guarantees in business."



This is not a boot.

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Ward said.

Recognizing that, rating agencies in recent years have realigned their analytical processes to apply a separate enterprise risk management framework to their evaluations.

Enterprise risk management attempts to identify how insurers establish their risk tolerances and how competently they manage risk within those tolerances, said Mark

Puccia, a managing director and global chief criteria officer of the insurance ratings group at Standard & Poor's Corp. in New York.

But if it becomes clear that an insurer does not have a strong enterprise risk management culture, S&P stops the enterprise risk evaluation, which penalizes the insurer, Mr. Puccia said. The evaluation also would examine an insurer's risk controls, management of emerging risk, risk and economic models, and strategic risk management.

Joel Silverthorn, a senior financial analyst with A.M. Best Co. Inc. in Oldwick, N.J., said the agency's enterprise risk management element of its evaluation process is a study of each part of an insurer's operations and how those pieces

interact with each other.

Messrs. Silverthorn and Puccia said that enterprise risk management always has been part of their organizations' evaluation processes but that now it is a specific, separate element of those processes.

Conservative but dynamic

The two rating agencies are moving beyond risk-based capital modeling to a more conservative and dynamic approach called economic capital modeling.

The economic capital approach attempts to quantify the risks identified through the enterprise risk management process and determine how much capital is necessary to support all of those risks.

That modeling also is designed to

get to an insurer's so-called embedded value, which is a gauge of an insurer's future earnings and, therefore, its ability to pay claims and survive or prevent a one in 20-year loss, for example, from eating up earnings.

European insurers are ahead of U.S. insurers in developing their company-specific economic capital models, making it easier for rating agencies there to develop an economic capital approach, said Howard Stecker, a senior vp with SMART Business Advisory & Consulting L.L.C. in New York.

Rating agencies, including Best and S&P, typically want to use an insurer's own economic capital model rather than develop their own and apply them to all insurers,

because insurers' mix of business, risk tolerances, enterprise risk management and other factors vary so greatly, experts said.

New York-based Fitch Ratings would not comment, but Mr. Ward said the agency is developing its own model. Moody's Investors Service also would not comment.

European insurers have been spurred to develop those models by Europe's adoption of the International Financial Reporting Standards, which is at the heart of the continent's Solvency II regulatory system for insurers. The United States is moving toward those standards in place of Generally Accepted Accounting Principles, but that likely will not happen for several years, Mr. Stecker said.

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Straight Answers

Solvency II poses a tough challenge for insurers doing business in Europe

Some owners of captives 'worried' about new capital requirements

By MICHAEL BRADFORD

As insurance companies grapple with the complex requirements of proposed solvency rules in Europe, policyholders are set to benefit from insurers' hard work.

Solvency II, the risk-based capital regime proposed for implementation in 2012, mandates drastic changes in the way insurers calculate capital requirements. Under the framework, insurers will have to better understand their risks in order to calculate the capital that backs them, experts say.

Confidence is key

Therefore, buyers can rest easier when it comes to their insurers having adequate funds to protect them against insolvency, market sources agree. Policyholders also will enjoy a more harmonized European mar-

ket under the new solvency framework, they add.

"Overall, this is a good initiative for policyholders," said Johann Meeke, head of enterprise risk management at Willis Re International in London. Solvency II ensures that insurers understand the risks they are exposed to and will make insurer insolvency less likely, said Mr. Meeke.

Solvency II should give policyholders a higher degree of confidence that an insurer is solvent, said Paolo Rubini, director of risk management at Telecom Italia S.p.A. in Milan and vice chairman of the Associazione Nazionale dei Risk Manager e Responsabili Assicurazioni Aziendali, Italy's risk management association.

"It will certainly provide us with more detailed information and a better capacity to investigate the

quality of insurers. It is a good thing for insurance buyers," he said.

Capacity questions

There is speculation that at least one potential downside to a risk-based capital framework could emerge: coverage shortages in some lines as insurers assign capital to less volatile lines of business.

"There is an argument for that," said Michael Zboron, managing senior analyst at A.M. Best Co. Inc. in London. "A possible impact of Solvency II is that, with a better understanding of their risk profiles, insurers will start to allocate capital to less volatile lines of business" where capital requirements are not as onerous, he said.

The flip side of that argument is that such moves could offer oppor-

Continued on next page

Questions & Answers



Elizabeth H. Zlatkus was named executive vp and chief financial officer of The Hartford Financial Services Group Inc. in May. She has responsibility for corporate strategy, finance, capital and enterprise risk management, investor relations, real estate, procurement and corporate information systems functions. Ms. Zlatkus previously was co-chief operating officer of The Hartford's life operations. In an interview with Business Insurance Senior Editor Sally Roberts, Ms. Zlatkus discussed how the current economic crisis is affecting The Hartford and other challenges facing today's insurer CFOs.

Shortly after the interview, Fitch Ratings revised its outlook on the Hartford, Conn.-based insurer to "negative" from "stable," reflecting concerns about the insurer's financial profile and challenging credit market environment.

'Unprecedented times'

Q: The Hartford has said it is not immune to the collapse of the subprime mortgage market. What exactly is your exposure and do you feel that you have a handle on the extent of the losses?

Certainly from a subprime perspective, we had just over \$2 billion subprime assets as of (July 31). This is based on a portfolio of close to \$95 billion as of June 30, so really as a percentage of our overall portfolio, it's not material. Clearly, the entire housing market and the resulting impacts—not just on subprime, but other asset classes—have been quite dramatic, and I think The Hartford has been watching that and watching our exposure, and we do think the overall subprime (exposure) is not material.

Q: What impact has the financial crisis had on The Hartford's liquidity situation? Have you, for example, had difficulty in securing or renewing lines of credit or other borrowing difficulties from your banks?

Earlier this year we prefunded two of our debt payments that were due at the second half of this year. We are very pleased to have been able to do that because we did that at very favorable terms...I do think obviously with what you're seeing today and over the last several weeks, the debt markets are very challenging for really the entire financial services industry.

Q: How do you as a CFO of a publicly traded insurer balance the competing interests of regulators and rating agencies, which like to see more capital in reserve, and investors and analysts, which like to see capital earning higher returns?

It's certainly a balancing act. Most importantly, you have to stay focused on managing for long-term success. However, I would say today more than ever that our constituencies are more in line. As the markets have turned more volatile, investors have become much more interested in ensuring that compa-

nies are appropriately capitalized. This of course is consistent with rating agencies and even our customers, who really look to make sure that the companies they invest with are well-capitalized.

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Q: What is the biggest issue or challenge facing insurer CFOs today?

My answer today is different than it would have been even a month ago. I think that we're living in unprecedented times right now, truly. The capital markets are extraordinarily volatile. Times are very challenging. They are challenging for our customers, our agents, our shareholders and our employees.

When you think about it, this financial turmoil is affecting everyone...The biggest challenge is ensuring that we're prepared for what's next, what's going to happen tomorrow, and looking out to see what is going to be on the horizon. I don't think too many would have predicted what we've seen with Fannie, Freddie, Lehman and others. So (the challenge is) to be very nimble and very thoughtful, and really looking out into the future and making sure that you're able to react—and not in a reactive manner but in a (thoughtful) manner.

Q: Any thoughts or concerns about the role enterprise risk management has taken in the ratings process?

We are in the risk business, so we really have to have superior risk management capabilities. I feel very good about our risk management capabilities at The Hartford. It's something that has grown up over the years. To the extent that that helps our ratings, we are very pleased and it is certainly something ratings agencies evaluate, but I would say it's kind of fundamental to our business even outside the ratings process.



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tunities for other insurers to pick up market share in the more-volatile lines, Mr. Zboron said.

Philippe Brahin, head of regulatory affairs at Swiss Reinsurance Co. in Zurich, Switzerland, said there is precedence to argue that Solvency II will benefit policyholders.

"Switzerland has already proven that," Mr. Brahin said. The Swiss Solvency Test, which has been in place since 2006, requires Swiss insurers to calculate capital under a risk-based approach. The country's regulators and insurers realized that previous solvency requirements did not give a true picture of the risks insurers faced and, therefore, offered inadequate policyholder protection, he said.

Many European insurers have created chief risk officer functions in anticipation of Solvency II, Mr. Brahin said. This will help policyholders recognize and avoid poor insurance company risk management, and support insurers that do it well.

Much of the information that benefits policyholders under Solvency II is likely to come from their brokers, said Mr. Zboron.

"I think intermediaries will better understand the financial strength of companies," said Mr. Zboron. "I doubt that policyholders really fully understand the solvency regime, but, obviously, there will be much more disclosure," he said.

Standardization

Apart from the peace of mind that a risk-based capital approach provides to policyholders, Solvency II will introduce some standardization that will make buyers' lives easier, said Emma Greenow, Brussels, Belgium-based European public affairs specialist with law firm DLA Piper U.K. L.L.P.

The new framework will create a more harmonized insurance market in the European Union, said Ms. Greenow. "Wherever a policyholder has a policy, they can be assured of a minimum standard there."

That harmonization should bring policyholders a greater sense of security, agreed Jonathan Groves, head of captive consulting in Europe, the Middle East and Africa for Marsh Ltd. in London. "It removes the necessity of dealing with lots of different regulations," he said.

Experts say that Solvency II's requirement that insurance companies use sophisticated models to help determine their capacity needs is both a comfort for buyers and a challenge for some insurers.

"A timely operational and embedded model should give a more realistic picture of the capital required and so could provide more protection for policyholders," said Phil Smart, London-based head of KPMG L.L.P.'s insurance technical advisory group.

Models are not foolproof, however, as current problems among the world's banks have demonstrated, Mr. Smart said.

Large insurers appear to be comfortable with the use of in-house models, sources say, while others struggle with that expensive and time-consuming task.

"I do not think general insurers

are particularly concerned, but captive owners are worried," said Mr. Groves. "A significant number of them will see an increase in (the required) capital. Also, there are risk management and operational procedures that have to be put into place. It will take a lot of cost and time to put those in place."

Mr. Zboron said insurers—particularly medium-size companies—are ramping up development of their models.

"They are more and more inter-

ested by their internal models," said Mr. Zboron. "They see the benefits of understanding their risk profiles better. It is a challenge to look at risk management in an holistic way, (but) that is a requirement of Solvency II."

Some await final framework

"In the last six months, there has been a definite upturn in the interest from insurance companies," Mr. Meeke agreed. "Prior to that, 2012 seemed a long way off. They are

starting to invest more time and energy into understanding what might be the implications of the capital requirements."

But others are waiting until the final framework is released, which is expected by the end of this year, said Mr. Smart. "There will be detailed measures that insurers will have to follow. That will allow companies to have some clarity. A lot of groups we see are holding off until they see that clarity," he said.

Development of models is at the

top of the list for many insurers, but putting the models in place is not the only challenge, Mr. Smart said.

"The next-biggest challenge is to demonstrate that the models are actually being used," said Mr. Smart. "That is something that insurers have never had to do. There are questions about how they will demonstrate its usage. And, how will it fit in with the existing economic capital model? That will certainly be a challenge."



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Solvency II packs global influence

Bermuda moves toward standards similar to European Union plan

By MICHAEL BRADFORD

The security and standardization that Solvency II promises to insurance policyholders will extend beyond the European Union.

As the risk-based capital regulatory framework grinds toward implementation in 2012, jurisdictions outside the European Union are expected to put similar rules in place. That is because regulators will require that insurers based outside the European Union—but writing coverage on risks in member states—are governed by regulations accepted as equivalent to Solvency II.

"We see it everywhere we turn now," said Johann Meeke, head of enterprise risk management at Willis Re International in London. "Insurance supervisors around the globe are changing their regulations to adopt risk-based capital principles."

"One could argue that over time, most regulators across the world will implement a system similar to Solvency II," said Michael Zboron, managing senior financial analyst

with A.M. Best Co. Inc. in London.

Bermuda is among jurisdictions moving toward a Solvency II approach. The island's government approved legislation in August to implement new solvency standards and other reforms designed to align Bermuda's insurance regulations with Solvency II.

To pass legislation is not the same as implementing a regime like Solvency II, said Phil Smart, London-based head of KPMG's insurance technical advisory group. "They have a huge mountain to climb in getting there. They may underestimate the amount of work it takes to gain Solvency II equivalency."

Switzerland already has a risk-based capital regulatory system, which was introduced in 2006, that is widely recognized as equivalent to Solvency II proposals. Sources say the Swiss solvency test and Solvency II should dovetail cleanly.

"The National Assn. of Insurance Commissioners in the United States is looking towards Solvency II as a best-practices model," said Emma

Greenow, Brussels, Belgium-based European public affairs specialist with law firm DLA Piper U.K. L.L.P. Asian markets are also looking at how Solvency II's principles could be adapted to establish capital requirements in that part of the world, she said. "It really does show best practices globally," she said of the European framework.

In the United States, the Kansas City, Mo.-based NAIC in June adopted its Solvency Modernization Work Plan, which will compare the longstanding U.S. risk-based solvency system with Solvency II. The plan also will consider what effect Solvency II might have on U.S. insurers in capital requirements, international accounting, group supervision, valuation issues and reinsurance.

If Solvency II is implemented in its current form, the European Union will have one of the most progressive insurance and reinsurance regulatory standards, Philippe Brahin, head of regulatory affairs at Swiss Reinsurance Co. in Zurich, Switzerland, said in an e-mail.

Questions & Answers

Amid the economic turmoil, insurers' and reinsurers' ability to communicate their financial security is more important than ever. Since July 2005, GMAC Re has offered an unusual option for its ceding clients: a fully funded trust to pay reinsurance claims. Chief Operating Officer Karen Schmitt spoke recently with Business Insurance to explain how the trust works.



GMAC Re utilizes trust

Q: How did the trust come about?

We started to develop this product back when we were still rated A by A.M. Best Co. The thing that was intriguing to us about the securitization issue was we had customers who had highly rated reinsurance contracts, but we'd see that they occasionally had issues with their reinsurers. It didn't really matter what the rating was if the other company was not willing to make good on the payment. Some customers we were dealing with were concerned about that. And in the not-too-distant past, there were some failures of companies that were highly rated. That made people nervous.

We started looking at what we could construct that would give our customers confidence not only in our ability to pay but would address concerns about late payments. As our parent company started to have issues, it became apparent we were going to get dropped to an A-. We made enough progress on it that we were able to get the product out to market in a couple of weeks. (Shortly before the trust was unveiled, Best did downgrade GMAC Re to A- due to concerns about its former ultimate parent, General Motors Corp.)

It was something that we discussed with our customers and our brokers. We got some consensus going in and really started rolling it out on almost a 100% basis. Most treaty customers have it. The treaty customer must be a minimum size—\$1 million in total reserves—but once they hit that threshold, which for us is not difficult because we take big shares of programs, we have this trust product that we can implement. It's a stand-alone, separate trust for each customer. So customers don't have to worry whether or not we have enough set aside for each of our customers. They only need to focus on the balances that we're carrying for their business.

It improves the transparency of the reinsurance relationship as well. Every six months, we're sending clients reports (that say) here's the contract reserves, what the case reserves are, IBNR (incurred but not reported claim reserves). They know as soon as we know how well that contract is performing and there's the ability to have dialogue. If they disagree with us and don't think there's

enough in the trust, there's a provision for them to have that discussion with us.

We believe it's the best security that's out there in the market because it is stand-alone. The funds are there for our customers. If we don't pay within a 90-day period on an undisputed balance, they can take the money. We don't come anywhere near that, though, because we pay very quickly.

Q: What classes of business are covered through the trust?

It's all of the treaties that we participate in. We're not really a market for E&O and D&O, but we do all of the traditional P/C lines of business. We have a facultative department, and in some cases we'll set up a trust for a facultative client, but so far for a large majority, the trust has been used by treaty clients. We write auto of both types, commercial and per-

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sonal, commercial multiperil, property, general liability, workers comp, and some excess and surplus property business. We have a lot of regional and superregional customers.

Q: How many clients are using the GMAC Re trust and what are the gross liabilities?

Between 50 and 60 customers. The amount of liabilities covered through the trust is in the ballpark of \$500 million, and it changes daily.

Q: How does the trust affect, if at all, GMAC Re's reinsurance pricing?

I'd love to think that people will pay for higher security, but I don't think we're there yet, particularly in this market. We do not charge for the trust. As an A- market, we bear the costs of that. I can't honestly say it makes a difference in pricing. We price the business exactly the way we always have. Especially in this market, if you're looking at a new business opportunity, price is still extremely important. I'd like to think that, when being evaluated, the ceding companies are saying, "This is something really special and we'd be willing to put GMAC Re on the contract even if they're not the lowest price."

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Little industry consensus about natural catastrophe policy

Ability of insurers to build tax-free catastrophe reserves unlikely to be part of any federal legislation

By MARK A. HOFMANN

There may only be two sure bets concerning insurance for national natural catastrophes.

No. 1, the next Congress will discuss natural catastrophe insurance issues. Both major political parties have addressed natural catastrophe insurance in their platforms, but without offering specifics (*BI*, Sept. 8).

No. 2, any program to allow insurers to build up natural catastrophe reserves on a tax-free basis is extremely unlikely to be part of any legislation that emerges in the next Congress.

Other than that, proposals that could receive congressional atten-

"You have legislation in Congress that hasn't progressed largely because there is no consensus on how to address these natural catastrophe issues," said Ben McKay, senior vp in the Property Casualty Insurers Assn. of America's Washington office. He noted that proposals to establish a federal role in catastrophe insurance have been floated for 20 years.

Take, for example, the Homeowners Defense Act, which won House approval last year. The act would have allowed the federal gov-

ernment to backstop state catastrophe insurance programs, although it would limit the backstop to homeowner coverage.

But such a plan, and federal intervention in general, is not supported across the industry by any means.

The Indianapolis-based National Assn. of Mutual Insurance Cos. opposes it, holding the bill would encourage states to "create risky catastrophe plans" and increase the federal government's financial exposure

"Federal government interven-

tion is not needed and is counterproductive," said Brad Kading, president of the Assn. of Bermuda Insurers & Reinsurers. "Federal intervention...will be mismanaged and will lead to more development (and) more exposure."

"The best way is to focus on storm-proofing and hazard mitigation," Mr. Kading said. "The research that's been done in 2008 shows that in Florida, if all the homes were built to the current code, you could reduce estimated losses by 50%."

Disagreements about the best approach to national catastrophe policy underscore the complexity of the issue.

"This whole question of whether there should be a national policy (is) very complicated," said Robert Detlefsen, NAMIC's vp-public policy.

He said appointing a commission of natural catastrophe experts might be a first step. The Senate's bill passed earlier this year to extend

See **CATASTROPHE** next page

'At the end of the day, we should be looking at public policy that enhances the private market's capacity to deal with these crises.'

Leigh Ann Pusey,
American Insurance Assn.

tion next year run the gamut from appointing a commission to examining natural cat issues to having the federal government act as a backstop to state catastrophe funds.

The insurance industry has its own proposals, parts of which could be incorporated into a national policy (see story, page 22).

"If you look at everything that companies have put out, they are consistent with a couple of principles," said Leigh Ann Pusey, chief operating officer of the American Insurance Assn. in Washington. "At the end of the day, we should be looking at public policy that enhances the private market's capacity to deal with these crises. We believe we've got to create some regulatory stability in the coastal market. This underscores the need for risk-based rates. You can't have systems that change after every storm because of the political environment."

But there is no industrywide consensus on an overall policy.

"Everything is going to depend on events," said Joel Wood, senior vp at the Council of Insurance Agents & Brokers in Washington. "I'm loath in a hurricane season...to count out federal involvement. It's event-dependent. Everybody agrees that it will be a next-year issue. There is clearly an impasse between those in the industry who seek a federal reinsurance backstop for state pools, the large personal lines providers who feel they are overexposed in the coastal areas (vs.) those who are aggressively opposed to that, combined with conservatives who are opposed to expanding potential liabilities for the federal government."

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Catastrophe: No industry consensus

CONTINUED FROM PREVIOUS PAGE

the National Flood Insurance Program advocated a broad study commission.

"Ordinarily, I'd be skeptical of the value of forming another commission to study to some problem," Mr. Detlefsen said. "But in this case, policymakers need to get a better handle on what the benefits or negative costs might be of various approaches. Congress needs help and guidance from outside experts."

But as Congress considers natural catastrophe policy, allowing insurers to set aside catastrophe reserves on a tax-free basis is highly unlikely to get much consideration.

Mr. Kading said he was skeptical about any tax breaks. "Congress is more likely to give tax benefits to consumers than insurance companies," he said.

"Most citizens are extremely surprised that insurers may not post reserves for losses that have not yet been incurred, that reserves are for losses that have been incurred but not yet paid," Mr. Wood said. "We think catastrophe reserves make all the sense in the world, but the fiscal environment is prohibitive. If anything, Congress may be looking for other ways to get money from the insurance industry as opposed to providing incentives through tax breaks."

The chances of allowing the tax-free buildup of reserves are "somewhere between none and none," said Mr. McKay. "While it's a good idea, it doesn't seem viable. There's going to be a liquidity problem in Congress with the bailouts...."

Proposals to ensure coverage availability, enhance mitigation efforts enjoy support

By MARK A. HOFMANN

There's been no dearth of proposals but also no agreement on natural catastrophe insurance policy both inside and outside the U.S. property/casualty insurance industry.

At least three major proposals—one of which has been incorporated into legislation—enjoy some degree of industry support.

The first is the Homeowners Defense Act, passed in the House last year and enthusiastically supported by Washington-based ProtectingAmerica.org, a group of public and private entities that advocates a federal natural catastrophe backstop.

The act seeks to provide federal support for state-sponsored insurance programs designed to make homeowners' insurance available and affordable in catastrophe-prone areas.

"It strengthens American financial infrastructure to deal with major catastrophes," said Ed Collins, a national director of ProtectingAmerica.org and managing counsel for Allstate Corp. in Northbrook, Ill. "It basically leverages our federalism model because it doesn't dictate to states whether to participate or what approach to take. It clearly addresses some of what's wrong with the current system—which is basically just raise rates and hope for the best. It recognizes that the backstop system needs to be actuarially sound, and protect taxpayers from this after-

the-fact...post-event model that we have today. We saw that so tragically play out against Katrina," he said, referring to the 2005 hurricane.

Enhanced mitigation is part of a "four pillars" approach advocated by Travelers Cos., the Council of Insurance Agents & Brokers, Nationwide Insurance Cos., and the Independent Insurance Agents & Brokers of America.

In addition to requiring implementation of a comprehensive mitigation program, this approach would set uniform rules for insurers in coastal zones from Maine to Texas to allow insurers to spread the risk among as many people as possible who face the same risk; require insurance companies to set risk-based and actuarially sound rates using approved standards and certified windstorm risk models; and create a cost-based federal reinsurance program for insurers for extreme events including multiple losses from one or more major events in a single season. The reinsurance would be available at cost, without federal subsidy, and carry a requirement that insurers would pass any savings directly on to their customers.

"The notion of a coastal zone a few miles deep that ignores the artificial boundaries of state lines could be compelling as an alternative" to a broad federal program, said Joel Wood, senior vp of the CIAB in Washington. "It is not a fully politically mature

debate."

Meanwhile, Hartford Financial Services Group has weighed in with its own proposal called the Coastal Catastrophic Partnership.

The proposal, which is aimed at the homeowner insurance market, rests on six core principles: sensible land use planning in coastal areas; expansion of the private insurance market's participation by recognizing the true cost of risk; have state-sponsored insurance providers conform to federal standards, including risk-based pricing; create federal backstop for "extreme catastrophic events"; "reaffirm the legitimacy of state-regulated policy language"; and offer means-tested financial help to homeowners during the transition to a new system.

The Hartford proposal, like the four-pillars approach, won praise from the IIABA.

Robert Rusbuldt, president and chief executive officer of the producer trade group, hailed the plan in a statement as being "consistent with principles that the Big I has long supported, including making a federal reinsurance backstop available to private carriers, market-based reforms, increased mitigation and building code standards, and greater participation in the National Flood Insurance Program."

He called it a "major positive development in the effort to solve the natural disaster insurance crisis."

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Who's been minding the store as exposures soar?

Property/casualty insurers haven't really examined effects of pricing, terms and conditions on their performance

Myron Picoult is an independent insurance consultant in New York. He is a past president of the Assn. of Insurance & Financial Analysts and was a member of the New York Society of Security Analysts. He can be reached at mpicoult@aol.com. An archive of his columns for BI is at www.BusinessInsurance.com.



but a cursory review of the major insurers will point to lackluster stock market performance.

Most observers would probably attribute the poor performance of the commercial P/C segment to the general malaise that has engulfed all financial equities and the periodic publicity of the decline in commercial pricing that has ensued. Likewise, some might attribute personal lines insurers' stronger performance to the reduction in automobile use that has occurred and the

investment spotlight being focused elsewhere. The decline in driving will not be a freebie to the industry.

I believe the laggard performance underscores much more than just a financial malaise. Commercial pricing has been on a downward slope for some time along with a loosening of terms and conditions. The earnings of many insurers have been benefitting from reserve releases and modest inflationary pressures. I would argue that reserves should

never be released. Furthermore, the industry has been very fortunate in terms of losses related to natural disasters such as earthquakes and hurricanes—which have a propensity to occur at the most inopportune time.

In recent years, managements have made many comments about their focus on pricing and underwriting integrity. It is unfortunate that industry analysts and the rating agencies do not probe deeper into the pricing actions of carriers. Where are the questions about

discounts off of ISO benchmarks? What is the pricing impact of changes in terms and conditions, and what about the debits and credits (basically credits) that periodically crop up? I recognize that the various elements that go into a pricing model are not perfect. However, if carriers cannot effectively quantify the impact of their pricing adjustments on their overall by-line pricing models, it raises the question

See **TICKER** next page

By MYRON PICOULT

About a year ago, some industry pundits said property/casualty stocks could be a haven if the U.S. economy slowed or fell into a recession.

Over the past 58 years, these stocks, generally, have been above-average performers in economic slowdowns or recessions. Some analysts also noted that the traditional boom and bust underwriting cycles would be moderated by the implementation of the Sarbanes-Oxley Act and lessons that managements have learned from prior cycles that turned increasingly volatile.

Since the early 1950s, the stocks of P/C insurers have outperformed the Standard & Poor's 500 Index in seven of nine recessions in the United States. The reason is that P/C insurance is not as much of a discretionary purchase as some would believe.

The better performance of P/C stocks was noticeable during the 1953-54, 1960-61 and 1990-91 recessions. A notable exception to the strong relative performance came during the 1973-1975 recession. The key was the fact that many insurers' portfolios were heavily invested in common and preferred stocks. While the "average carriers" invested about 100 cents of each \$1 of their statutory capital in equities, many of the larger public companies were well in excess of that. This leverage resulted in a meaningful decline in the capital bases of the leveraged entities due to the stock market crash of 1973-1974. Today, the average carrier's portfolio has about 30 cents in equities for every \$1 of surplus.

However, there could still be some cracks in the armor. In the current environment, the insurance industry, in general, has lagged other financial services firms in recognizing and adjusting for exposure to some of the instruments that have bedeviled major banks, Wall Street brokerage houses and other entities.

Through mid-September of this year, the S&P 500 Index was down about 15% vs. a more than 16% decline for a basket of commercial insurers. Personal lines insurers have actually outperformed the S&P 500, declining about 9% over the same period. Admittedly, the performance of these groups is skewed by the composition of the index,

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Insurance industry reaches major crossroads

Success or failure depends on identifying and acting on those risks that pose the greatest danger

John J. Hampton is the KPMG Professor of Business and Dean of the School of Professional and Continuing Studies and Graduate Business Programs at St. Peter's College in New Jersey. To read Mr. Hampton's columns and interviews, visit www.BusinessInsurance.com/ERM.



By JOHN J. HAMPTON

In mid-September, I was a keynote speaker at a national conference in Atlanta. The audience was insurance agents. The topic was enterprise risk management. The focus was Enron, Chrysler, Airbus and financial institutions. Next month, I am to address a similar audience in Dallas. Between the two events, we saw the collapse of American International Group Inc. and lots of others.

Emerging Risk STRATEGIES

What am I going to say now?

Only two industry sectors have embraced ERM in any meaningful way—energy companies and financial service institutions. After Bear

Sterns, Lehman Bros., Merrill Lynch and AIG, we can draw the conclusion that ERM has failed the shareholders and employees of financial firms. Or we can recognize there has been a failure to understand ERM.

The most-discussed framework for ERM came from the Committee of Sponsoring Organizations. According to COSO, ERM is a board of directors and management process applied across the enterprise to

See **ERM** next page

Ticker: Data, skills need fortification

CONTINUED FROM PREVIOUS PAGE

about risk/price exposure and capital deployment.

On the personal lines side, questions must be asked about how the industry is going to handle pressures from consumers and regulators on auto rates in the face of consumers driving less and the perception that the reduction in miles should lead to lower claim costs and hence, premium rates.

In addition, there are likely to be more challenges to what have been rather perfunctory increases in insurance-to-value relationships due to the decline in home values. Furthermore, how will the industry offset the impact of rising deductibles should homeowners seek to rein in their insurance costs?

Finally, how will insurers handle the challenge to help their policyholders maintain adequate coverage on their dwellings? The aforementioned have to be viewed in context of the facts that building costs, automobile repair costs and medical costs have not declined.

The industry's current level of prosperity can best be described as fragile. For all practicable purposes, the industry's peak in profitability was probably 2007. Competitive forces have put pressure on premium growth, investment income growth has slowed and the excess capital cushion is much flatter or may have completely disappeared. This has all occurred despite a continued rise in insurance costs. Many insurers have also opted to reduce their use of reinsurance and retain more of their business. This is a good idea when the trends are positive, but not such a good idea when trends are not.

On top of this, other factors are affecting the industry's performance. Where is the leadership? Where is the next Hank Greenberg or Jack Byrne? The risk management mistakes of numerous major financial institutions including commercial banks and Wall Street brokerage houses underscore the need for a revamping of risk management oversight and more effective monitoring of risk exposure, pricing, investment risk and capital allocation. It is interesting that we are finally beginning to see the arrival of a risk management czar in many of these institutions, which of course raises the question of who was watching the bouncing ball and where have the boards been?

In addition, the use of technology to enhance professional skills and enhance data gathering and interpretation still wanes in this business. There remains a reluctance to hire and embrace employees that can and will think outside the box. Is the industry getting its share of the best and the brightest? Using the template from the past to plan for the future is not the way to find the yellow brick road. The world is changing and so must this business.

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Emerging Risk STRATEGIES

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identify events that may affect the entity, manage risks within its risk appetite and provide a reasonable assurance of the achievement of objectives. Pursuing ERM, one global corporation identified 2,900 business risks and sought to manage them in an integrated process. Most companies do not see the value of such an effort.

The subprime mortgage debacle shows us that the COSO approach to ERM is a failure. We definitely need a central risk function, but its job is not to manage risk. Its goal is to identify critical risks and share its concerns with the entity's risk owners. An organization should be scanning the horizon for external exposures and within the organization itself for weaknesses in leadership, culture, and management. Then, it should share its findings.

If we assess the risk correctly, the issue is not about bailing out poor decision-makers and crooks. It is about stabilizing the financial system and economy of the world.

In 2004, radio commercials offered ridiculously low mortgage rates. How could a financial services company miss such a signal? Interest rates were low but not that low. Something was wrong.

Scan externally. It took only minor investigation to see what was happening. Housing prices had been in a steep climb for nine years—a housing bubble was widely proclaimed. Some people could not afford the homes they bought. Others got into the game after watching their neighbors get rich by purchasing and flipping second homes and condos. Las Vegas and Florida were particularly hot. A downturn in housing prices could be bad news for many people.

Scan internally. Banks were the originators of loans, but they did not hold them. The security markets were searching for higher yield returns. Banks could sell off housing loans and earn a return far greater than their invested capital. Everybody believed they gained on mortgages that carried extremely low annual interest rates that then jumped dramatically after a few years. The temptation to relax credit standards, or eliminate them entirely, would lead to disaster if housing values declined.

AIG, Merrill Lynch and others have bright leaders and managers.

How could they not see the exposure? One answer is that they had internal auditors, compliance officers and quantitative models to manage risk. Such tools lull us into believing that we can predict the future and limit the impact of exposures. This may be true for risks that are the subject of internal audit. It is not the point of ERM. We gain little value from central management of thousands of business risks. If we have such a program, it can be nothing more than a description of our internal controls. We need something different.

We can broaden the need for ERM to our country as a whole in this time of crisis. Scan internally. When Congress failed to pass a bailout bill on Sept. 29, the American public

seemed to support the action. The media reported letters, e-mails and telephone calls running 100-1 against passage. An ERM evaluation of the situation shows a failure to correctly identify the real risk.

Scan externally. The global economy and financial systems are in jeopardy. Something needs to be done.

Scan internally. It is all about getting elected. Thus, our leaders focus on inconsequential issues: Do not allow large severance packages for the CEOs of the failed companies. Raise the FDIC guarantee on individual deposits from \$100,000 to \$250,000.

Scan more internally. Banks are reluctant to lend for car or home purchases. Businesses are having a

tough time exercising their lines of credit. People are losing their jobs. These are pretty big risks.

Nobody knows whether a bailout will work, but we can be pretty sure that severe consequences accompany a failure to act. Once again, we focus on the wrong description of risk. If the \$700 billion bailout passed, it could cost \$2,333 of future debt for every U.S. resident. When it failed, common stock values dropped about 6% around the world. With a global stock market cap of \$51 trillion on Sept. 30, we lost \$5,000 for every person on the planet. Since Americans hold a disproportionate share of wealth, the real loss was much greater for the United States.

From an ERM perspective, it is

more important to save the economy and worldwide financial markets than to worry about already wealthy CEOs and a change to guaranteed deposits? If we assess the risk correctly, the issue is not about bailing out poor decision-makers and crooks. It is about stabilizing the financial system and economy of the world.

So what will I say in Dallas? No matter what else transpires in the upcoming weeks before the elections, I will remind my audience of the statement by the famous philosopher Woody Allen:

"More than at any time in history mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray we have the wisdom to choose correctly."



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Products & Services



U.S. Preventive Medicine rolls out online tool

DALLAS—U.S. Preventive Medicine is offering an online wellness program for employers to help their employees manage chronic conditions and focus on preventive health care.

The Prevention Plan, available at www.thepreventionplan.com, is a Web-based tool to help employees to determine their health care risks and create a plan to lower those risks. A nurse advocate is available to answer questions and help users navigate the health care system.

The program can be used to manage chronic care needs of individuals with existing medical issues such as diabetes or asthma, as well as other high-risk health issues. Other features include alerts for preventive screenings, reward program resources and discounts with national partners.

Employees can use the program as a secure data center to store med-

ical information and track their progress, even if they the employer changes insurance carriers or the employee changes jobs, according to the Dallas-based health management company. And employers receive reports to help them evaluate their programs and manage health care costs, the company said.

Employers have no choice but to manage runaway health care costs, Christopher Fey, chairman and chief executive officer, said in a statement. "The federal government is projecting that the average cost of spending per person on health care will be \$13,101 by the year 2017," he said, "nearly double the cost in 2006."

For more information, contact Jennifer Sargent, vp of sales, at 612-720-5143, or jsargent@uspreventivemedicine.com or visit www.uspreventivemedicine.com.

Aetna Inc. enhancing expat wellness program

HARTFORD, Conn.—Aetna Inc. is expanding resources offered by its Global Health Connections program for employees working outside the United States or with multinational organizations.

The enhancements include a screening tool for high-risk pregnancies and customized education for members who are at a high risk for disease. It also offers members and their dependents a variety of weight management tools.

Aetna's Global Health Connections program, which launched in April, already includes a chronic disease management program for high-risk members who suffer from conditions such as asthma or diabetes, and an online wellness program for expatriates.

For more information, contact Isabelle Hebert, head of strategy, marketing and product, Aetna Global Benefits at 860-273-0420 or heberti@aetna.com.

Willis program focuses on environmental liability

NEW YORK—Willis Group Holdings Ltd. has introduced an environmental prospective identification and quantification program to help organizations evaluate and reduce their environmental exposures.

The program collects and reviews data about a company's environmental liability portfolio to identify gaps in liability identification, valuation or disclosure.

Following a meeting to gather information, an EPIQ proprietary tool analyzes the information to generate loss possibilities "even where historic loss data is scarce or not available," the New York-based brokerage said in a statement.

For more information, contact Michael Balmer, North American environmental practice leader, at michael.balmer@willis.com or visit www.willis.com.

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Rodd Zolkos
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New Insurance Recovery Law Firm directory

Business Insurance will be publishing its first Directory of Insurance Recovery Law Firms in conjunction with the Nov. 3 Spotlight on Liability & Litigation.

The Directory of Insurance Recovery Law Firms list firms that provide consulting and litigation support to policyholders in disputes with insurance companies through a specific insurance recovery practice. For example, the support could be in the areas of product liability, professional liability, disability, intellectual property claims, directors and officers liability, commercial crime insurance, property losses, business interruption losses or other types of claims.

Law firms that provide support principally to insurance companies or provide general litigation support will not be listed.

If your law firm is interested in being included, please contact Kevin Edison at kedison@businessinsurance.com.

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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

IN RE: INSURANCE BROKERAGE ANTITRUST LITIGATION	:	Hon. Garrett E. Brown, Jr.
APPLIES TO ALL ACTIONS	:	MDL No. 1663
	:	Civil Action No: 04-5184 (GEB)
IN RE: EMPLOYEE-BENEFIT INSURANCE BROKERAGE ANTITRUST LITIGATION	:	Civil Action No: 05-1079 (GEB)
APPLIES TO ALL ACTIONS	:	

COURT-ORDERED LEGAL NOTICE

IF, DURING THE PERIOD FROM AUGUST 26, 1994 THROUGH SEPTEMBER 1, 2005, INCLUSIVE (THE “SETTLEMENT CLASS PERIOD”), YOU

ENGAGED OR RETAINED MARSH & MCLENNAN COMPANIES, INC. OR ANY OF ITS AFFILIATES (“MARSH”) TO PROVIDE INSURANCE BROKERAGE AND ANY INSURANCE-RELATED ADMINISTRATIVE, ADVISORY OR CLAIMS SERVICES WITH RESPECT TO THE PURCHASE OR RENEWAL OF INSURANCE OR REINSURANCE COVERAGE WHERE THE COVERAGE INCEPTED OR RENEWED DURING THE SETTLEMENT CLASS PERIOD;

and/or

ENGAGED THE SERVICES OF ANY OTHER BROKER (AS DEFINED BELOW) TO PROVIDE INSURANCE BROKERAGE AND ANY INSURANCE-RELATED ADMINISTRATIVE, ADVISORY OR CLAIMS SERVICES WITH RESPECT TO THE PURCHASE OR RENEWAL OF INSURANCE OR REINSURANCE COVERAGE WHERE THE COVERAGE INCEPTED OR RENEWED DURING THE SETTLEMENT CLASS PERIOD;

YOU COULD BE ENTITLED TO PARTICIPATE IN A CLASS ACTION SETTLEMENT PURSUANT TO WHICH YOU WOULD RECEIVE MONETARY RELIEF.

If you believe that you are eligible to participate in the class action settlement described in this Court-Ordered Legal Notice but did not receive in the mail a detailed Notice describing the settlement, please visit www.insurancebrokeragemarsh.com, where you can obtain the Notice, or contact the Court-approved Administrator as set out below to request a copy of the Notice.

A settlement in the above-captioned action has been reached with Marsh (the “Marsh Settlement”) in a class action lawsuit (the “Class Action”) alleging, among other things, that Marsh engaged in an insurance brokerage scheme involving the receipt by it of undisclosed payments or kickbacks from insurance carriers, steering insurance policyholders to carriers paying the most in so-called “contingent commissions,” and rigging bids for insurance, all in violation of the law and to the detriment of insurance policyholders.

In addition to insurance policy purchases and renewals as to which Marsh provided insurance brokerage and related services, purchases and renewals of insurance through any Broker (as defined below, including its subsidiaries and affiliates) — even if such Broker is not named as a defendant in this Class Action — may also be covered by the Marsh Settlement if the policies were purchased or renewed within the Settlement Class Period.

The Marsh Settlement involves policy purchases made through the **Brokers**, which are the following companies:

ACO Brokerage Holdings, Inc. Acordia, Inc. Affinity Insurance Services, Inc. Aon Broker Services, Inc. Aon Consulting Inc. Aon Corporation Aon Group, Inc. Aon Limited Aon Re, Inc. Aon Re Worldwide, Inc. Aon Risk Services Companies, Inc. Aon Risk Services, Inc. of Louisiana Aon Risk Services, Inc. of Maryland Aon Risk Services, Inc. of Michigan Aon Risk Services, Inc. of Texas Aon Risk Services Inc. U.S. Aon Services Group, Inc. Arthur J. Gallagher & Co. Arthur J. Gallagher Brokerage & Risk Management Services, LLC Arthur J. Gallagher Risk Management Services, Inc. BB&T Corporation BB&T Insurance Services, Inc. Benefits Commerce Branch Banking and Trust Company Brown & Brown, Inc. Brown & Brown Insurance Benefits, Inc. CRC Insurance Services, Inc. Frank F. Haack & Associates Gallagher Benefit Services, Inc. Gallagher Healthcare Insurance Services, Inc. Guy Carpenter & Company, Inc. Hilb, Rogal & Hobbs Company Hub International Group Northeast, Inc. f/k/a Kaye Group, Inc. Hub International Limited Hub International Midwest Hub International of California Insurance Services, Inc. J&H Marsh & McLennan of Utah, Inc. Marsh & McLennan Companies, Inc. Marsh & McLennan Incorporated Marsh Canada Limited Marsh Inc. Marsh Global Broking Inc. Marsh Global Broking, Inc. (Missouri)	Marsh Global Broking, Inc. (New Jersey) Marsh Global Markets (Bermuda) Ltd. Marsh Global Placement, Inc. Marsh Ltd. (London) Marsh Limited UK Marsh Placement, Inc. Marsh Private Client Services Marsh Risk & Insurance Services, Inc. Marsh Risk Consulting Marsh USA Inc. Marsh USA Inc. (Connecticut) Marsh USA Inc. (Michigan) McGriff, Seibels & Williams, Inc. Mercer Human Resource Consulting, Inc. Mercer Human Resource Consulting LLC Mercer Human Resource Consulting of Texas, Inc. Mercer, Inc. O’Neill, Finnegan & Jordan Insurance Agency, Inc. Risk Placement Services, Inc. Seabury & Smith, Inc. Stewart Smith Group Summit Global Partners of Florida, Inc. Talbot Financial Corporation ULR Insurance Services, Inc. Universal Life Resources USI Consulting Group U.S.I. Holdings Corporation U.S.I. Holdings, Inc. USI Insurance Services Corporation USI Insurance Services of Florida, Inc. (d/b/a USI Florida) USI Mid Atlantic USI Midwest USI Northeast Wells Fargo & Company Willis Group Holdings Limited Willis Group Limited Willis Group North America, Inc. Willis North America, Inc. Willis of Michigan, Inc. Willis of New York, Inc. Willis Re Inc.
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If you are a Settlement Class Member and you do not wish to participate in the Marsh Settlement, you must request exclusion from the Settlement Class by no later than October 20, 2008.

If you think that you might be a Settlement Class Member, you can obtain more information—including a copy of the Notice which provides additional detail — by calling the Court-approved Administrator at **1-888-356-0266**, by e-mailing the Administrator at info@insurancebrokeragemarsh.com or **by visiting www.insurancebrokeragemarsh.com.**

WHAT DOES THE MARSH SETTLEMENT PROVIDE?

Approximately sixty-nine million dollars (\$69,000,000) (the “Settlement Fund Amount”) has been deposited in an interest-bearing escrow account. If the Court approves the Marsh Settlement and that approval becomes final, the Settlement Fund Amount will be distributed as follows:

- Sixty-two million dollars (\$62,000,000) (the “Class Fund”), together with any interest, but less administrative expenses associated with the settlement, expenses incurred to maintain the escrow account, and tax liabilities, if any (the “Class Fund Amount”) shall be distributed to Settlement Class Members consistent with the Plan of Allocation, with up to five million dollars (\$5,000,000) of that amount available for use by Marsh to resolve and settle the claims of state officials representing insurance policyholders who are potential Settlement Class Members. Approximately seven million dollars (\$7,000,000) — the \$69 million Settlement Fund Amount less the \$62 million Class Fund — will be available for use by Marsh to resolve and settle the claims of plaintiffs in certain existing and pending actions relating to the same matters that are the subject of this Notice.
- If the Class Fund Amount exceeds one hundred percent (100%) of the total amount of eligible premiums Settlement Class Members report on their Claim Forms, such excess amount may be used by the Marsh Defendants to resolve and settle the claims of state officials.
- No more than ten percent (10%) of the amount distributed to Settlement Class Members will go to Settlement Class Members who are not and were not policyholders that purchased insurance or reinsurance through Marsh.
- In the event that any portion of the Settlement Fund Amount has not been distributed five years after the Preliminary Approval Order entered by the Court in this Action (i.e., five years from August 20, 2008), such amount shall be distributed to the Settlement Class.

Finally, as described below, Marsh must pay certain additional amounts — the amounts awarded to cover attorneys’ fees and expenses for Plaintiffs’ counsel (“Class Counsel”) and for counsel in the State Court Class Action described below (“State Court Class Counsel”) — in addition to the Settlement Amount described above. Thus, these amounts will not be paid out of the Settlement Fund Amount.

WILL PARTICIPATION IN OTHER SETTLEMENTS AFFECT PARTICIPATION IN THE MARSH SETTLEMENT?

In January 2005 Marsh entered into a Settlement Agreement with the Office of the Attorney General for the State of New York and the Superintendent of the New York State Department of Insurance (the “NYAG Settlement”), pursuant to which a settlement fund of \$850,000,000 was created for distribution to eligible policyholders (“Participating Policyholders”). In exchange for receiving distributions, the Participating Policyholders released Marsh from any further claims or liabilities relating to the matters that are the subject of this Class Action. Participating Policyholders who executed such releases are excluded from the Settlement Class in this Class Action and will not be entitled to receive any distributions from the Settlement Fund Amount.

WILL YOUR PARTICIPATION IN THE MARSH SETTLEMENT AFFECT YOUR ABILITY TO OBTAIN RELIEF FROM OTHER BROKERS OR INSURERS?

Participation in the Marsh Settlement will only affect your ability to obtain further relief from Marsh and will not affect your ability to obtain relief from any insurer or any other broker in this or any other lawsuit or class action. If plaintiffs in this or any other class action reach a settlement with or if a judgment resulting in a damages award is entered against any of the brokers other than Marsh or against insurers in this or any other class action, you will be able to participate in that settlement or award (as long as you are within any class or settlement class the Court might certify in that case) even if you participate in the Marsh Settlement.

WHO IS PAYING THE ATTORNEYS’ FEES AND EXPENSES THAT ARE BEING SOUGHT?

Marsh negotiated with Class Counsel (the Co-Lead law firms of Whatley, Drake & Kallas, LLC and Cafferty Faucher LLP, along with other counsel in the Class Action) and with State Court Class Counsel (the law firm of Kirby McInerney LLP) the amount of attorneys’ fees and expenses that Marsh will, subject to Court approval, pay to Class Counsel and State Court Class Counsel. Class Counsel will seek an award of attorneys’ fees and expenses of no more than fourteen million five hundred thousand dollars (\$14,500,000) and State Court Class Counsel will seek an award of attorneys’ fees and expenses of no more than four million five hundred thousand dollars (\$4,500,000). Marsh has agreed to pay such amounts and will not oppose these applications. Class Counsel and State Court Class Counsel have agreed not to oppose each other’s applications. The awards of attorneys’ fees and expenses to Class Counsel and State Court Class Counsel are subject to Court approval. Class Counsel intends to apply to the Court for permission to pay ten thousand dollars (\$10,000) to each of the class representative plaintiffs based upon the effort that the Plaintiffs have devoted to the lawsuit, to be paid from the amount awarded to Class Counsel. Marsh will pay attorneys’ fees and expenses in addition to the other amounts it is required to pay under the Marsh Settlement Agreement. ***You will not be responsible for any of Class Counsel’s or State Court Class Counsel’s fees or expenses, and none of those fees or expenses will be deducted from the Settlement Fund Amount.***

WHAT ARE THE LEGAL EFFECTS OF PARTICIPATING IN THE MARSH SETTLEMENT?

If the Court approves the Marsh Settlement, Plaintiffs and Marsh will seek the entry of a Judgment and an Order Approving Settlement that, among other things, will:

- find that the Marsh Settlement is fair, reasonable and adequate;
- finally certify the class for settlement purposes;
- dismiss the Class Action with prejudice as to Marsh, meaning that no Settlement Class Member – including you (unless you timely exclude yourself) – will be able to bring or pursue another lawsuit or proceeding against any of the Releasees (as that term is defined in the Marsh Settlement Agreement, which term includes Marsh and any of its subsidiaries and affiliates) based upon the claims that have been raised or that could have been raised in the Class Action;

- incorporate the Release that is found in the Marsh Settlement Agreement as part of the Order Approving Settlement;
- permanently bar Settlement Class Members from filing or participating in or benefiting from any lawsuit or other legal action against any or all Releasees arising from or relating to any and all claims that have been raised or that could have been raised in this Class Action;
- enter a bar order that will:
 - prevent any person or entity from commencing, pursuing or asserting any claim against any Releasee where the alleged injury to that person or entity is, is measured by, arises out of or relates to that person’s or entity’s alleged liability to the Settlement Class or a Settlement Class Member; and
 - prevent any person or entity (including all Releasees) from commencing, prosecuting or asserting any claim against any person or entity where the Releasee’s alleged injury is, is measured by, arises out of or relates to the Releasee’s alleged liability to the Settlement Class or a Settlement Class Member;
- award attorneys’ fees and expenses to Class Counsel and State Court Class Counsel; and
- retain jurisdiction over all matters relating to the administration, enforcement and interpretation of the settlement.

As noted, if the Court approves the Marsh Settlement, the Release that is found in the Marsh Settlement Agreement will be incorporated into the Court’s Order Approving Settlement. The Release describes the claims that Settlement Class Members will give up. As discussed below, you can obtain a copy of the Release from the Court-approved Administrator or from the website of Class Counsel.

Court approval of the Marsh Settlement will also lead to the dismissal of the putative class action lawsuit commenced in New York State Supreme Court entitled *In re Marsh & McLennan Contingent Commission Litigation*, Index No. 603711/2004, which is based on allegations similar to those made in this Class Action.

HOW WILL SETTLEMENT PAYMENTS BE MADE?

If you are a Settlement Class Member, you will have to fill out a claim form and submit it to the Administrator at Marsh Insurance Brokerage Antitrust Settlement, c/o Complete Claim Solutions, LLC, P.O. Box 24704, West Palm Beach, FL 33416. You can obtain the claim form by visiting the website of the Court-approved Administrator at **www.insurancebrokeragemarsh.com**, by calling 1-888-356-0266, Monday through Friday from 9:00 a.m. to 5:00 p.m. EDT, by writing to the Administrator at the address above, or by sending an e-mail to info@insurancebrokeragemarsh.com.

WHAT OPTIONS ARE AVAILABLE TO SETTLEMENT CLASS MEMBERS?

If you fall within the definition of Settlement Class Member, you may either (i) participate in the Marsh Settlement (and receive distributions from the Class Fund Amount if the Court approves the Marsh Settlement Agreement) or (ii) request exclusion from the Marsh Settlement.

If you want to participate in the Marsh Settlement, but you object to any term of the Marsh Settlement Agreement, you may submit an objection to the Court. All objections must be filed with the Court and served on Class Counsel and Marsh’s counsel by no later than October 20, 2008. The Notice provides details (at paragraph 23) about how to object.

If you want to exclude yourself from the Marsh Settlement, you must submit a written request to the Clerk of the Court (at the address that is in the Notice). Your request must be postmarked or delivered no later than October 20, 2008. The Notice provides details (at paragraph 24) about how to exclude yourself.

WILL THE COURT HOLD A HEARING REGARDING THE MARSH SETTLEMENT?

The Court will hold a hearing in this case on December 15, 2008 at 12:00 p.m. EST in Courtroom 1 in the United States District Court for the District of New Jersey, located at 402 East State Street, Trenton, New Jersey 08608, to consider whether to approve the Marsh Settlement, including, among other things, the Plan of Allocation, and whether to grant counsels’ applications for attorneys’ fees and expenses. If you file an objection, you may appear at this hearing and ask to be heard by the Court, but you do not need to do so. Your attorney must file a written notice of appearance to be able to speak at the hearing. If you do not hire an attorney but intend to make a presentation to the Court, you must file a notice of your intention to appear. The Notice provides details (at paragraph 25) about filing a notice of appearance or intention to appear and serving it on Class Counsel and Marsh’s counsel by no later than October 20, 2008.

The Court may choose to change the date and/or time of the hearing without further notice of any kind. If you intend to attend the hearing, you should confirm the date and time with the Class Counsel identified below or the Court-approved Administrator prior to going to the Courthouse.

HOW CAN A SETTLEMENT CLASS MEMBER GET ADDITIONAL INFORMATION?

The Marsh Settlement Agreement sets out the details of the Marsh Settlement, including the terms of the Release by which Settlement Class Members will be bound if the Marsh Settlement is approved. A complete description of the Plan of Allocation and the Release is also attached to the Notice. Both the Marsh Settlement Agreement and the Notice (which includes the Release and the claim form) are available at the Court-approved Administrator’s website, **www.insurancebrokeragemarsh.com**, by calling 1-888-356-0266, Monday through Friday from 9:00 a.m. to 5:00 p.m. EDT, by writing to Marsh Insurance Brokerage Antitrust Settlement, c/o Complete Claim Solutions, LLC, P.O. Box 24704, West Palm Beach, FL 33416, or by sending an e-mail to info@insurancebrokeragemarsh.com. The Notice is also available at the following Class Counsel websites: Whatley Drake & Kallas, LLC – www.whatleydrake.com; Cafferty Faucher LLP – www.caffertyfaucher.com and at Marsh’s website, **www.marsh.com**.

Additional information regarding this Class Action and the Marsh Settlement may also be obtained by contacting the following Class Counsel:

Edith M. Kallas, Esq. Whatley, Drake & Kallas, LLC 1540 Broadway, 37th Floor New York, New York 10036 Telephone: (212) 447-7070 Facsimile: (212) 447-7077	and	Bryan L. Clobes, Esq. Cafferty Faucher LLP 1717 Arch Street, Suite 3610 Philadelphia, Pennsylvania 19103 Telephone: (215) 864-2800 Facsimile: (215) 864-2810
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PLEASE DO NOT CONTACT THE COURT OR THE CLERK’S OFFICE FOR INFORMATION

European risk management 'matures'

FERMA finds that environmental risks top managers' concerns

By RICHARD MILLER

Although risk management has "matured" in Europe, risk managers there say there is still much work to do embed risk management processes in their operations, according to research from the Federation of European Risk Management Assns.

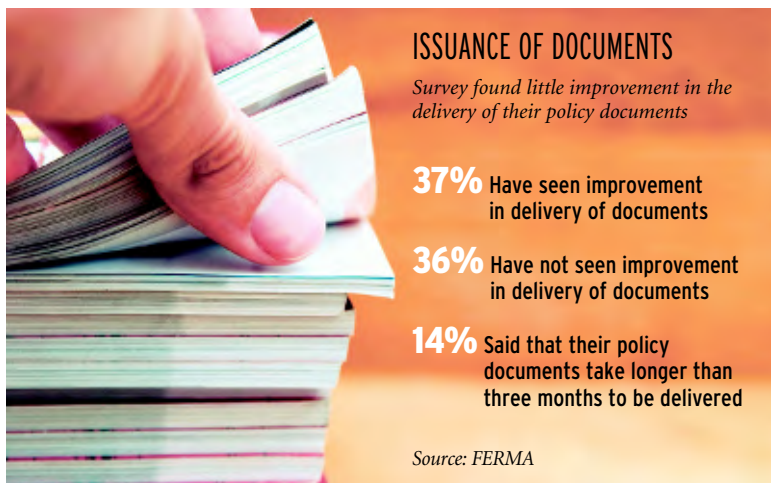
In FERMA's "2008 Benchmarking Survey," three-quarters of respondents said they have a defined risk management policy, and 80% have a defined risk management process, according to findings released at FERMA's biennial seminar in Brussels last week.

"European companies have matured, in that a vast majority have decided how to tackle risk management," according to the survey report. "Established policies, charters, defined processes are now the norm, rather than the exception."

However, risk managers are aware of a potential "execution gap," with a much smaller proportion of companies able to state that their risk management processes are embedded in their operations. "Many more see it as work in progress," FERMA said.

FERMA said its fourth benchmarking survey was its most representative sample of European risk management opinion so far. Conducted independently between March and May, the survey received 555 replies from mostly large enterprises in more than 16 countries. In the previous surveys, there were 460 responses in 2006, 269 in 2004, and 49 in 2002.

The survey, conducted in collaboration with AXA Corporate Solu-



tions—a unit of Paris-based AXA S.A.—and Ernst & Young L.L.P., showed both "an overall increase in maturity and a wide diversity in (risk management) practices" among respondents across Europe, FERMA said.

On the current state of risk, survey respondents said exposures continue to evolve.

Risk managers expect exposures related to the environment and sustainable development to increase in importance in the next two years. Legal risks, including legislation, policy and national and international regulation, are also seen as growing, the report found.

Commercial risks, such as market pressure and competition, are regarded as second only to operational risks in importance today and are likely to increase, FERMA said.

The survey also found that European buyers are more satisfied with

the service provided by traditional insurance markets.

A quarter of the respondents said insurers fully met their needs, compared with 21% in 2006, while those clients who said that they still needed to find additional solutions dropped to 57%, from 62% two years ago, the survey found.

Buyers said insurance rates would remain stable, although more than 30% expected medium-term increases for environmental, directors and officers and other liability lines.

FERMA noted that pressure by buyers over issuance of insurance documents is "producing some results." In the survey, 37% said they had seen an improvement, although almost the same percentage, 36%, said they had not. Roughly two-thirds, 64%, received their policy documents within three months of inception, although 17% said it took longer.

International NEWS

Ontario court dismisses class action lawsuits

By COLLEEN MCCARTHY

TORONTO—The Ontario Court of Appeals has rejected a class action lawsuit against the Canadian government by thousands of women who suffered injuries after their sili-

cones disintegrated.

In both instances, the Court of Appeals said manufacturers, not government officials, are responsible for product safety and reliability.

The breast implant lawsuit, *Attis vs. Canada Health*, alleged Health Canada failed to test, ban or recall the implants or warn the appellants about the hazards of the devices. Dow Corning Corp. and other manufacturers also were named as defendants.

The judge upheld an earlier ruling that the federal agency did not directly misrepresent or assure the long-term safety of the Dow Corning silicone gel breast implants to individual consumers.

"It is impossible for Health Canada to regulate on behalf of individuals directly," the decision said.

The jaw implant case, *Drady vs. Canada Health*, alleged Health Canada failed to issue warnings or take action to remove the devices from the market, after disclosing the implants could break down.

"The job of the government is to govern, and in the course of doing so, to make broad-based policy decisions for the public collectively," Justice Susan Lang wrote for the panel.



The Ontario Court of Appeals rejected lawsuits against the Canadian government by women who claimed they were injured after their silicone breast implants ruptured.

cone breast implants ruptured.

Ontario's highest court last week also dismissed a separate class action lawsuit by people whose jaw



Typhoon Jangmi lashed Taiwan last month, dropping up to 14 inches of rain and causing up to \$120 million of damage.

AIR estimates that Typhoon Jangmi damage could reach \$120 million

BOSTON—Typhoon Jangmi may have caused as much as \$120 million in insured damage in Taiwan, catastrophe modeler AIR Worldwide Corp. estimates.

The storm made landfall in northeastern Taiwan on the afternoon of Sept. 28 with sustained winds estimated at 130 mph, AIR reported. The storm drenched most of Taiwan with torrential rain, with some locations reporting rainfall accumulations of nearly 14 inches in 24

hours. Boston-based AIR estimates that insured damage from the wind and flooding will fall between \$40 million and \$120 million.

But "damage from Jangmi has not been as extensive as anticipated," Peter Sousounis, senior research scientist at AIR Worldwide, said in a statement, citing mitigation by the Taiwan Central Mountain Range on wind speeds as the storm made landfall.

"Specifically, the mountains

caused Jangmi to slow significantly in forward speed and turn toward the south—and away from Taipei—for several hours before turning northward again, during which time winds continued to weaken," Mr. Sousounis said. "Jangmi took nearly 18 hours to cross Taiwan. In that time the mountains took their toll. Jangmi re-entered open water in the Taiwan Strait as a strong tropical storm."

—By Mark A. Hofmann

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Mandate: Appeals court OKs S.F. law

CONTINUED FROM PAGE 3

least \$1.76 per hour for every eligible employee working at least 10 hours a week. Expenditures can include payment of group health insurance premiums, contributions to health savings accounts and health reimbursement arrangements, or payments to a special San Francisco fund or to reimbursement accounts that San Francisco administrators.

It also imposes numerous reporting rules on employers.

The San Francisco area restaurant association that challenged the city's health care spending ordinance said it is now considering seeking a rehearing by the full 9th Circuit or a review by the U.S. Supreme Court.

Benefit experts say if the decision is appealed, the high court is likely to review it.

The most important reason is that the ruling has created a split at the appeals court level. In 2006, the 4th U.S. Circuit Court of Appeals ruled that a Maryland health care spending law was pre-empted by ERISA.

In that decision, the 4th Circuit said if the law were allowed to

stand, other cities and states would follow suit, creating a patchwork of benefit requirements on employers that ERISA pre-emption was intended to prevent.

In addition, experts say a Supreme Court review is likely given the huge impact on corporate benefit plans if the San Francisco ruling is allowed to stand.

Ruling could take years

Still, even if the Supreme Court takes up the case, it could be a year or two before the high court hands down a decision. In the meantime, employers that operate in San Francisco will have to comply with the requirements.

For employers that meet the \$1.76 per hour spending mandate, the only direct impact is the ordinance's reporting requirements.

But many employers don't meet the spending requirement. Few employers, for example, provide health care coverage to employees working as little as 10 hours a week, the trigger for the mandate.

In addition, the law generally requires a spending contribution even for those workers who have rejected cover from their employers in favor of being covered under a

spouse's group health care plan.

Employers not meeting the spending requirements have been analyzing the most sensible approach to comply. The approaches taken have varied.

Some employers, such as large national companies with just a handful of employees in San Francisco, have found that rather than amending their health care plans to expand eligibility, it is easier just to pay the required contribution to San Francisco, said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

In other cases, employers are adding HRAs for San Francisco employees ineligible for regular group coverage. Instead of paying money to the city, contributions pay for the health care expenses of their own employees, Mr. Stover said.

And under HRA designs, unused balances typically are forfeited to the employer when an employee terminates employment, a feature that could make the HRA less costly than making contributions to the city.

"To the extent you have forfeitures, your costs are reduced," Mr. Anderson said.

Mass: Employer assessment rules eased

CONTINUED FROM PAGE 4

final rules will retain—for employers with at least 11 and 50 or fewer employees—the current either/or approach.

In addition, although employers with more than 50 employees would generally have to pass both tests, those that don't pay 33% of premiums will be exempt from the assessment—under a safe harbor provision—as long as at least 75% of full-time employees are enrolled in their health care plans.

Finally, the regulations, which are supposed to generate \$30 million in annual revenues, compared with the roughly \$7 million that was generated during the first year that the current Fair Share Contribution tests were imposed, will take effect Jan. 1, 2009, rather than last week, as proposed originally.

Massachusetts health care regulators say the shape of the final rules

'Small employers are breathing a sigh of relief as the latest proposal to take more money out of their pockets has been put on ice.'

Bill Vernon, National Federation of Independent Business/Massachusetts

reflects input by a wide range of interest groups.

Business groups, especially those representing smaller firms, welcomed the changes.

"Small employers are breathing a sigh of relief as the latest proposal to take more money out of their pocket-

ets has been put on ice," Bill Vernon, state director of the National Federation of Independent Business/Massachusetts in Boston, said in a statement.

"This is definitely an improvement. This is a positive change that allows thousands of employers to continue to do what they have been doing" without being subject to the assessment, said Richard Lord, president and chief executive officer of Associated Industries of Massachusetts in Boston.

Still, Mr. Lord questions the need for changing the rule. The intent of the changes is to boost revenues for Commonwealth Care, the state program that subsidizes health insurance premiums for the low-income uninsured. But with Commonwealth Care enrollment slipping in recent months, an increase in revenues through tightening the Fair Share Contribution rule may be unnecessary, he said.

IRS: Reservist FSA regulations clarified

CONTINUED FROM PAGE 4

In addition, while the distribution feature is available only to employees called up for at least six months, employees called up for fewer than 180 days can qualify for the distribution if subsequent calls increase the total period of active duty to at least six months.

Multiple tours of duty

For example, if an employee is called for 120 days of active duty and the order is extended for an

additional 60 days, the individual would be eligible to take a cash distribution from his or her FSA.

The IRS notice also makes clear that after an employee requests a distribution, his or her employer must receive a copy of the order or call to active duty before it can provide the distribution.

Employees have to request a distribution on or after the date of the call to active duty and no later than the last day of the FSA plan year or grace period—if the employer has added a grace period to its FSA—

during which the call to duty occurred.

Employers generally have to provide the distribution within 60 days after the request for a distribution has been made.

Distributions can be made with respect to FSA balances on or after June 18.

Employers are required to report the distribution as wages on employees' Form W-2 income and wage statement for the year in which the distribution is paid to the employee.

UP Comings & Goings CLOSE



CRAIG NELSON

NEW JOB TITLE: Senior vp of Beecher Carlson Holdings Inc.'s Denver office

PREVIOUS POSITION: Executive vp of business development for Denver-based Van Gilder Insurance Corp.

VITAL STATISTICS: Professional designations include Chartered Property Casualty Underwriter, Certified Insurance Counselor, Associate in Risk Management and Enterprise Risk Management Professional.

GOALS FOR NEW POSITION: My primary goal is to work in selected industry segments to bring clients to the company.

CHALLENGES FACING THE INDUSTRY: Obviously, the AIG situation clearly affects us. It's on the minds of buyers who either have dealings with AIG or are wondering how that is going to affect them. I think it's too soon to make a determination about that,

but clearly people are anxious about the financial industry. When an industry icon like AIG can go down, what does that mean for the security industry as a whole?

FIRST EXPERIENCE IN THE INDUSTRY: I started a long time ago as an underwriter trainee for the Hartford in casualty insurance. I started right out of college and I couldn't even spell insurance. For me it was a complete education experience.

IF I COULD CHANGE ONE THING ABOUT THE INDUSTRY: I would insist that we have delivery of the insurance policy within five days of the renewal. I think every client wants that and doesn't understand why we can't deliver that.

OUTSIDE THE INDUSTRY, A DREAM JOB: I think would teach college English, British literature. I was an English major as an undergraduate and I have always loved Shakespeare and the classics. I love poetry. It's not something I get to do much of when I am working.

Comings & Goings ONLINE

VISIT www.BusinessInsurance.com/ComingsandGoings for a full list of this week's personnel moves and promotions. Check our Web site daily for additional postings.

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Parity: Mental health law passes as part of wider bill

CONTINUED FROM PAGE 3

The measure will take effect Jan. 1, 2010, for most calendar-year plans.

Passage of the legislation comes 12 years after Congress first addressed mental health care benefits parity.



'No longer will we allow mental health to be treated as a stepchild in the health care system.'

Sen. Pete Domenici, R-N.M.

In 1996, Sen. Domenici helped lead the drive to pass legislation that eliminated discriminatory annual and lifetime dollar limits on

mental health coverage, but the measure allowed employers to discriminate in other ways in providing coverage.

Since then, periodic attempts were made in Congress to expand the 1996 law. That effort, however, did not gain significant momentum until several years ago. That was when, at the invitation of several senators, employers, insurers and mental health care providers agreed to work together in order to forge legislation that they all could support.

The final bill, "while not perfect, is one we can all live with," James Klein, president of the American Benefits Council in Washington, said previously.

ADA: Amendment sparks concern for employers

CONTINUED FROM PAGE 4

the number of people covered by the ADA. In particular, it will "shift much of the focus to reasonable accommodation; more precisely, whether an individual with a physical or mental condition is otherwise qualified to perform essential job functions, with or without reasonable accommodation."

Therefore, employers should review job descriptions, job qualification standards and reasonable accommodation procedures to ensure that they comply with the law, he said.

"By so doing, employers can

avoid ADA cases altogether, or win those that cannot be avoided," Mr. Maatman said.

Lawrence Lorber, a partner with Proskauer Rose L.L.P. in Washington, said he doesn't believe the new law "will be burdensome for many employers."

"They've conducted their employment practices assuming that persons who claim to be disabled had a disability and, therefore, immediately tried to determine whether there was a reasonable accommodation for them," said Mr. Lorber, who led the Chamber's negotiating team.

The new law clarifies and expands the definition of disability, but doesn't change an employer's obligation to engage in the process of deciding whether there is an accommodation, he said.

"Nor does it change the nature of the accommodations that have to be offered," Mr. Lorber said.

Employers should review their practices, he said, to define "essential functions" of jobs so they are able to determine whether an accommodation is necessary at all. They also should document the accommodations they offer workers, Mr. Lorber said.

Some states already define disability broadly, said Victoria Zellers, a member of Cozen O'Connor P.C. in Philadelphia. "In those states, it won't be as great a change for the employers," she said.

Employers "need to review both their hiring processes and the policies that apply to current employees. More applicants and employees will meet the definition of disabled, and more accommodations will be needed in the workplace," Ms. Zellers said.

Deal reached in Colorado ballot fight

Unions agree to pull labor-friendly initiatives that businesses opposed

By JUDY GREENWALD

DENVER—Four proposed state constitutional amendments that organizations representing Colorado employers said would have had a devastating impact on businesses in the state have been withdrawn from November's ballot, following a deal worked out with labor supporters that had proposed them.

A spokeswoman for the Denver Metro Chamber of Commerce said the amendments were withdrawn in exchange for \$3 million in fund-

ing from businesses to support union opposition to proposed anti-union laws. The spokeswoman said the chamber was not contributing to the fund.

The amendments would have eliminated "at will" employment in the state and required private employers to have a "just cause" before terminating employees; mandated that all companies with at least 20 employees provide health insurance for workers and their dependents; removed the workers compensation "exclusive

remedy" provision; and held corporate officials criminally liable for illegal company activities.

Opponents of the amendments called them a poison pill by labor supporters as part of a strategy to have the anti-union measures withdrawn.

The measures included a right-to-work provision banning compulsory union membership.

It is too late to pull the proposals from the ballot, but now the votes will not be counted, according to reports.

Bailout: Easier credit would help insurers

CONTINUED FROM PAGE 3

to enterprise risk management within the property/casualty industry seems to leave something to be desired."

"Other than some very obvious visible cases, the balance sheets of the property/casualty industry are about as strong as I've ever seen them," said John Wicher, principal of John Wicher & Associates Inc., in San Francisco. "Also, the conservative nature of most property/casualty insurance companies" has resulted in them "being largely insulated from the problems of the subprime marketplace."

"In general, we wouldn't expect property/casualty companies to have significant exposure to these troubled assets directly," said Jeanne Hollister, Towers Perrin's Hartford, Conn.-based head of property and casualty insurance in the Americas. "The assets of property/casualty companies tend to be heavily dominated by high-quality bonds."

Although some P/C insurers do have subprime exposures, "the exposure to these assets is likely concentrated in banks and life insurance companies," said John L. Ward, chief executive officer of Cincinnati Partners L.L.P. in Cincinnati. "There will be some insurance companies that will have an interest in selling some of the mortgage-related assets to the program."

Although it is possible that any company holding so-called toxic securities could sell them to the Treasury Department under the program, P/C insurers are not among the major holders of such instruments, said Robert Hartwig, president of the Insurance Information Institute in New York.

Insurers who avail themselves of the federal aid could suffer some reputational damage, said Dan Anderson, Schultz professor of risk management and insurance at the University of Wisconsin in Madison.

Just the appearance of having to tap the fund "would raise some questions for me," Mr. Anderson said.

"I would expect that if a company does engage in a transaction, it will be public," said Mr. Hartwig.



REUTERS

"We have shown the world that the United States of America will stabilize our financial markets and maintain a leading role in the global economy," President Bush said last week in signing the Emergency Economic Stabilization Act of 2008, allowing the government to buy up to \$700 billion of bad assets.

Regulators and rating agencies will no doubt look at any listing of companies involved, he said. "The objective of the Treasury program is

'In general, we wouldn't expect property/casualty companies to have significant exposure to these troubled assets directly.'

Jeanne Hollister, Towers Perrin

not to create a stigma. It is in fact to improve and stabilize the balance sheet of companies have that exposure."

"At the same time, all participants will be observed and discussed because there will be a great deal of interest in this program," Mr. Hartwig said.

He also said companies with nominal levels of exposure may not even bother with the facility.

Mr. Ward, though, said that approaching the fund wouldn't necessarily harm an insurer's image.

"I believe the fund is there for a specific purpose, and if insurance companies choose to pursue that

option, I do not think that's a sign of weakness. I think that's a sign of a company using the assistance available to clean up its balance sheet," Mr. Ward said.

One major benefit, albeit an indirect one, "to property/casualty insurers will be the positive impact on liquidity in the commercial banking segment," said Mr. Ward. "Property/casualty carriers to a reasonable degree rely on lines of credit, and other methods of liquidity frequently provided by commercial banks, and presumably the bill will unfreeze the liquidity situation and that will be a positive development for the property/casualty industry," he said.

If the federal action restores confidence to the overall economy, the P/C industry would benefit because it is very "sensitive to the overall growth of the economy," said III's Mr. Hartwig. He added that insurers are among the largest institutional investors, so they would benefit to the extent that the move brought stability to the stock and credit markets.

Mr. Picoult said the bailout probably won't impact insurance industry merger and acquisition activity.

"I don't think there will be oodles of money available all of the sudden to do," mergers and acquisitions, he said. Such deals as do emerge will be subject to heightened scrutiny by all involved, he said.

ADVERTISER

INDEX

Issue of October 6

ADVERTISER	PAGE #
ACSTAR Insurance	10
AIG Corporate	29, 36
Allianz Global Corp	14
Aon Corporation	2
Arch Insurance	7
Ascension	18
Beazley Group Inc.	16, 17
Brownyard Programs	26
Business Insurance	12, 24
Dempsey Partners	6
Discover Re	23
FM Global	21
GMAC Re	35
Hinshaw & Culbertson	20
Katie School of Insurance	26
Marsh	27
Mercer HR Consulting	15
Midlands Management	33
Munich Re America	19
Smart	22
Travelers	25
World Captive Forum	13A/B
XL Insurance	5
Zurich Financial Services	9, 11

AIG: Insurer to focus on core operations

CONTINUED FROM PAGE 1

to the insurer.

The \$85 billion should "provide us with the flexibility we need to work ourselves out of the situation" without seeking additional funding, Mr. Liddy said, though he later noted that he is "not a big fan of the word 'never.'"

The Federal Reserve Board has been "very generous" and "AIG will do everything we can not to go back to them," said Mr. Liddy.

He indicated that AIG may seek to sell certain assets through the federal government's massive bailout program for financial institutions—which President Bush signed last week—"if it makes good economic sense."

Meanwhile, AIG is exploring divestiture of the businesses it plans to sell, which is are "already proving to be highly attractive to buyers." AIG will take a "deliberative and disciplined approach" to such sales, Mr. Liddy said.

"This will be an open and transparent process," he said, noting that AIG will have a "clear bias" toward selling its operations to "brand-name companies" with strong ratings and balance sheets.

A "delicate balance" must be maintained with respect to AIG's timing of asset sales, he said. "We clearly want to maximize value, and this is not a fire sale."

Mr. Liddy said AIG has put in place retention and enhanced severance agreements that "will encourage people to stay. We think there's every reason for (employees) to wait and see who these buyers are."

Referring to AIG's credit swap portfolios—part of the business at the root of AIG's financial distress—Mr. Liddy said: "We are looking at a number of proposals. We are turning over ever rock we can possibly think of" in an effort to generate value from those assets, he said.

He stressed that AIG is well-positioned to serve commercial insurance clients.

"Our regulated entities are strong and well-capitalized," and AIG's policyholders are secure, said Mr. Liddy.

Mr. Liddy said that while AIG may have lost six or seven percentage points of its directors and officers business, other lines are "doing fine" and AIG is working to hold to as much business as possible so it can "go back and fight another day. We're making good progress in doing that," said Mr. Liddy.

At the same time, the insurer will not sacrifice underwriting discipline in an effort to keep business, he said. "We're really good at that. I'm all about pricing and underwriting discipline," he said. "I don't want to solve one problem and create another."

The company that eventually emerges will not exactly be the "AIG of old," but "we'll have a very secure position."

"The team is very excited about the future of AIG, with the focus being on our commercial property/casualty business around the world," John Doyle, chief executive officer of AIG Commercial Insurance, told *Business Insurance* last week. "Our sole focus is continuing to build the competitive strengths and advantages that we've developed over time so that we can continue to build the value of our franchise globally."

"At the end of the day, we'll

review with negative implications.

Referring to AIG's plan to retain only a continuing ownership interest in its successful foreign life insurance operations, Mark Lane, an analyst with William Blair & Co. in Chicago, said this is a "sign that they really need to cut pretty deep and act pretty aggressively."

Mr. Lane said although "the number of buyers is still broad, it's less than it was six to 12 months ago; asset values are down, so it remains to be seen how far or how deep they will go with this plan."

"It is a very fluid situation, and ultimately how much capital will they need to support their core operations" is a question. As a result, "I would expect that customers, if they're overly concentrated in AIG, would be prudent to spread their risk around somewhat. I think they're going to have trouble holding on to all their businesses," Mr. Lane said.

John L. Ward, chief executive officer of Cincinnati Partners L.L.P. in Cincinnati, said AIG eventually may have to sell part of its commercial operations.

"It's logical to me that (Mr. Liddy) would want to keep the commercial lines franchise...for the long term and hold that out of this process initially, but it's a race against the clock, and they may have to divest pieces of that depending on how this process goes, and how much they end up borrowing against the \$85 billion—and perhaps more than the \$85 billion," Mr. Ward said.

Jim Amen, a partner with Philo Smith & Co., a Stamford, Conn., a boutique investment bank specializing in insurance, said he believes the \$85 billion will be sufficient. Underneath AIG "there's a very solid, solid base that could absorb quite a bit of impact to the balance sheet."

Mr. Lane expressed surprise that AIG had already borrowed \$61 billion. He said while he believes the \$85 billion will be adequate, it's a "tough call," because the liquidity in the credit market is at a low point now.

"The passing of the (federal) bailout plan should help them manage down their exposure," he noted.

The \$61 billion figure was also cited by S&P in revising AIG's ratings watch status to negative from developing.

"The \$61 billion draw to date on the facility is much larger than we had previously anticipated," credit analyst Rodney A. Clark said in a statement.

"This has caused the scope of the planned business sales to exceed our expectations," Mr. Clark said.

In addition, New York-based Moody's Investors Service on Friday downgraded AIG's senior unsecured debt rating to A3 from A2.



A 'delicate balance' is needed in timing AIG asset sales. 'We want to maximize value, and this is not a fire sale.'

Edward M Liddy, AIG

come out of this as the largest worldwide commercial property/casualty carrier group, and that excites our group," said Kristian Moor, AIG executive vp and CEO of AIG Property/Casualty Group.

Challenges

Tough conditions in the credit markets may make financing the purchase of AIG units a challenge, analysts say.

Cathy Seifert, an equity analyst with New York-based Standard & Poor's Corp., said the businesses AIG plans to retain "are sort of the crown jewels of the franchise."

However, the decision to sell those businesses that it has "coupled with what's going on in the credit markets, I think, increases the



'At the end of the day, we'll come out of this as the largest worldwide commercial property/casualty carrier group.'

Kristian Moor, AIG

execution risk inherent in this strategy," said Ms. Seifert.

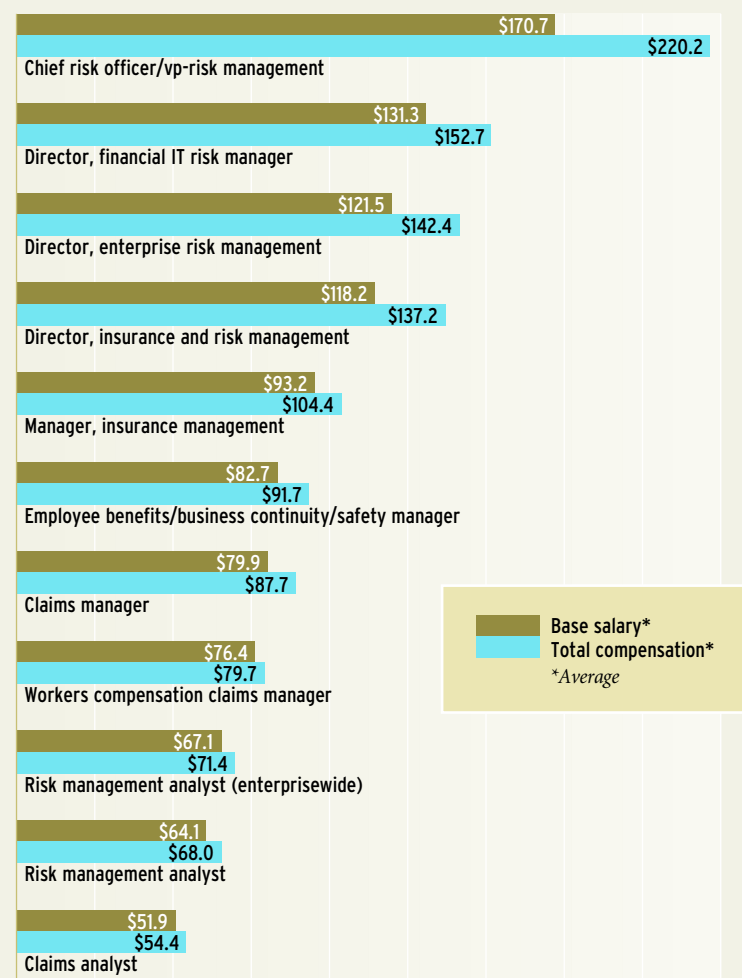
"They're selling off some of the businesses that may be more difficult to sell," and the overriding question is whether buyers can obtain financing, she said.

Andrew Colannino, vp in the P/C division for Oldwick, N.J.-based A.M. Best Co. Inc., noted that while "some of the properties that they have for sale will generate significant interest," some of these "are very large and complex, and the execution is something that we have to see through."

There is uncertainty as to the operations' sale price, as well as the form of financing, given the situation in the credit markets, he said. Best's ratings of AIG remain under

RISK MANAGEMENT PROFESSIONALS' COMPENSATION

Average base salary and total compensation by job, in thousands of U.S. dollars.



Source: Risk & Insurance Management Society Inc.

Salary: CRO No. 1 in pay

CONTINUED FROM PAGE 1

\$170,683 with total compensation of \$220,200. For a similarly sized Canadian-based company, their average base salary, converted to U.S. dollars, is \$140,200 with total compensation of \$179,025.

Mr. McDonald said not only has the prevalence of CROs at companies grown, but their importance within an organization also has increased. He said companies have shifted from thinking of risk management as a cost center to thinking of risk management as a potential profit center, or at least a control center.

"It wasn't surprising (that) the data we got back indicated it is the most highly compensated position in the field," Mr. McDonald said.

He said companies are looking to higher-level risk managers for innovative ideas that go beyond transferring risks via insurance.

The survey found that larger companies generally offer higher compensation to their CROs because of the value they place on these individuals, he said. U.S. companies with revenues greater than \$10 billion paid their CROs or vps of risk management an average base salary of \$219,700 a year, compared with \$153,200 at companies with revenues between \$500 million and \$1 billion, and \$118,500 at companies with revenues less than \$1 million.

Other disparities existed in CRO compensation as well. Public sector CROs were paid the highest total compensation at \$238,600, non-profit CROs were next with \$207,000, and private sector CROs made average total compensation of \$206,000.

Compensation levels for CROs

and vps or risk management also varied by industry. Such executives in the entertainment and media industry made the most, with base salaries that averaged \$232,100, while officers in the education sector made the least, averaging \$146,300 a year.

After CROs, the next-highest paying positions in the field included directors of financial or information technology risk management, directors of enterprise risk management, and directors of insurance and risk management (see chart). The lowest average base salary of those surveyed was for claims analysts.

Overall, salaries tied to positions featured in both the 2007 and 2008 surveys changed minimally, although pay did rise for most positions. Mr. McDonald said the growing importance of risk management at organizations at every level is influencing pay.

"As the business environment continues to evolve both domestically and internationally, senior management is including risk managers in discussions about where the company is going," Mr. McDonald said. "Risk managers are no longer just the insurance buyers who sit in a room with insurance brokers. The C-suite is learning to call on risk managers and give risk managers other opportunities."

In total, 2,180 RIMS members from 1,490 organizations in the United States and 171 organizations in Canada completed online surveys between May and June.

For more information on the 2008 Risk Management Compensation Survey, its price and how to order the survey, visit www.rims.org/compensationsurvey.

News In Brief

CONTINUED FROM PAGE 1

fears that the insurer might become the latest casualty of the financial crisis. Fitch Ratings revised to "negative" its outlook on various Hartford ratings on concerns of a worsening credit market. Hartford said it is confident in its ability to meet customer commitments and to manage through current difficult financial markets.

Willis completes acquisition of HRH

Willis Group Holdings Ltd. last week completed its \$2.1 billion acquisition of Hilb Rogal & Hobbs Co., which increased Willis' size and presence in North America, expanding Willis' locations in North America to 210 from 70. The acquisition is also expected to increase Willis' 2008 revenues to \$3.4 billion on a pro forma basis, compared with \$2.6 billion in 2007. Willis North America now will be known as Willis HRH. HRH generated \$800 million in revenues in 2007.

Praetorian sells E&S operation

Torus Insurance Holdings Ltd. has agreed to acquire Praetorian Specialty Insurance Co. from Praetorian Insurance Co., a member company of QBE the Americas. London-based Torus said it plans to purchase Praetorian Specialty through a cash transaction, but a spokesman for Torus would not provide further details. The acquisition of New York-based Praetorian Specialty will allow Torus to do business as an excess and surplus lines insurer in 42 U.S. states. Torus wants to expand its specialty underwriting in the United States for businesses such as those in the energy and industrial technology sectors, the spokesman said.

P/C insurer profits drop in first half

The U.S. property/casualty insurance industry's aftertax profits fell 57.4% to \$13.9 billion during the first six months of 2008 compared with the same period last year, the Insurance Services Office Inc. and the Property Casualty Insurers Assn. of America reported last week. Net written

premiums dropped 0.6% to \$221.9 billion in the first six months of the year. Policyholder surplus decreased nearly 2.5% to an estimated \$505 billion as of June 30. Insurers were battered by both underwriting losses and decreased investment income. Underwriting losses reached \$5.6 billion during the first half of this year compared with \$14.5 billion in net underwriting gains during the same period last year. Insurers' net investment gains—the combination of net investment income and realized capital gains or losses—fell 18.4% to \$24.8 billion in the first half of the year, and their combined ratio deteriorated more than nine points to 102.1%.

Gov. Schwarzenegger vetoes health bills

California Gov. Arnold Schwarzenegger last week vetoed several health reform bills, including a single-payer proposal; a bill that would have prohibited providers from balance billing patients whose insurance coverage limits reimbursement; and a measure that would have prohibited health insurers from dropping coverage when patients become ill. However, the governor did sign a measure that bars providers from balance billing members of the state-run Healthy Families and Access for Infants and Mothers programs.

N.Y., Bermuda sign agreement

The New York State Insurance Department has signed an agreement of cooperation with Bermuda's insurance regulator to establish a formal basis for consultation, cooperation and coordination. The move came after the New York department and the Bermuda Monetary Authority collaborated on firms affected by the near-collapse of American International Group Inc. and the subprime-mortgage crisis, according to a statement by New York Insurance Superintendent Eric Dinallo's office. Under the agreement, signed last week, the regulators would assist each other in the exchange, handling, protection and return of information relevant to their respective markets for regulatory purposes. The agreement also covers procedures for investigating firms or persons in either domicile, including taking testimony and conducting inspections. The New York Insurance Department has entered into similar agreements with the insurance regulators of Germany and Taiwan.

Brokers: Bank deal would boost Wells Fargo unit

CONTINUED FROM PAGE 1

have been sold later.

Citigroup, however, is not giving up without a fight.

Following the announcement of the Wells Fargo/Wachovia deal, Citigroup demanded that the two banks terminate the proposed transaction, saying any deal would be "in clear breach" of the exclusivity agreement it has with Wachovia.

"The exclusivity agreement provides, among other things, that Wachovia will not enter into any transaction with any party other than Citi, and will not participate in any discussions or negotiations with any third party," Citigroup said in a statement. "Citi has substantial legal rights regarding Wachovia and this transaction."

Neither Wells Fargo nor Wachovia would comment beyond their joint news release.

The moves came after Wachovia, like other financial institutions, bet big on the U.S. mortgage industry and suffered losses as a result of the subprime-mortgage collapse.

New ownership

Regardless of whether Wachovia becomes part of Wells Fargo or retains its insurance brokerage operations under a deal with Citigroup, Wachovia Insurance Services is likely to come under new ownership, observers say.

Prior to the Wells Fargo deal, observers said there was speculation that Wachovia was searching for a buyer for Wachovia Insurance Services.

"If Wells Fargo buys Wachovia, it's pretty clear what happens to Wachovia Insurance," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago. "If the deal becomes unglued, Wachovia Insurance is likely to be back on the block."

The "best scenario" for Wachovia Insurance Services would likely be a private equity deal in which the brokerage would remain essentially intact, Mr. Cunningham said. But such a deal is unlikely, given the current market conditions.

Becoming part of Wells Fargo Insurance Services, however, would not be "a bad deal" for Wachovia Insurance Services, Mr. Cunningham said. "They don't have a lot of footprint overlap. And they're kind of blood brothers in the sense of both are used to operating under bank parents."

Wells Fargo Insurance Services is the world's fifth-largest brokerage, based on 2007 brokerage revenues of \$1.28 billion, according to *Business Insurance's* ranking. Wachovia Insurance Services was the 12th-largest broker of U.S. business, with \$422.5 million in 2007 brokerage revenues from U.S. clients.

Rob Lieblein, a Harrisburg, Pa.-based managing partner of investment banking and consulting company Hales & Co. Inc., noted that Wells Fargo Insurance Services has "a very high cross-sell rate with bank customers" that would "fit well" with Wachovia Insurance Services.

At the same time, the addition of Wachovia Insurance Services would fill some geographic gaps for Wells Fargo Insurance Services, Mr. Lieblein said.

Wells Fargo Insurance Services is concentrated in California and the Midwest, with smaller operations in the Southeast; Wachovia Insurance Services, meanwhile, is focused on the Mid-Atlantic, Southeast, Texas and upper Midwest, Mr. Lieblein said.

"So while there may be some overlap in the Southeast and the Mid-Atlantic, I would think it greatly fills in some gaps in the Wells Fargo footprint and expands it in certain markets," Mr. Lieblein said.

"The unknown is the cultural fit, including the large business from the Palmer & Cay merger several years ago by Wachovia," he said.

Wachovia Insurance Service's 2005 acquisition of Savannah, Ga.-based Palmer & Cay Inc. nearly doubled its revenues and set it on the course of becoming a national middle- and upper-middle-market brokerage.

In terms of integrating insurance brokerages that come from deals struck by its parent bank, Wells Fargo Insurance Services already has that experience.

Last year, Redwood City, Calif.-based ABD Insurance & Financial Services Inc. became part of Chicago-based Wells Fargo Insurance Services upon the completion of Wells Fargo's acquisition of Greater Bay Bancorp.

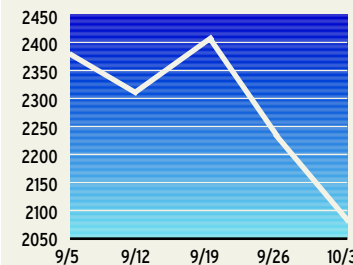
While ABD currently operates as a separate entity, ABD's name will be retired at the end of the year, and operations will be integrated under Wells Fargo Insurance Services on Jan. 1, 2009, executives have said.

Stock Index

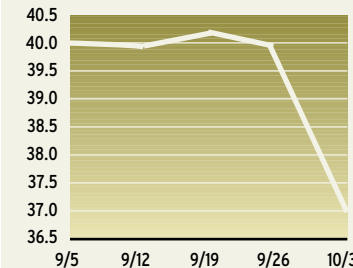
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

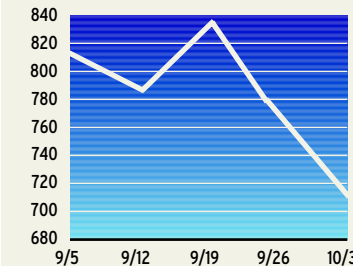
BI STOCK INDEX



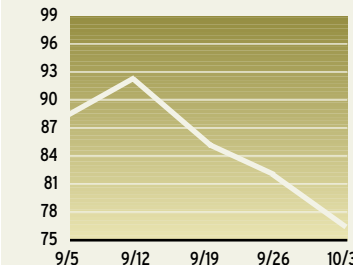
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	2072.85	↓ -7.37%
DOW JONES	10325.38	↓ -7.34%
S&P 500	1099.23	↓ -9.40%

LARGEST GAINS

AIG	22.54%
Ambac Financial Group	6.86%
Fairfax Financial Holdings	3.47%
Berkshire Hathaway	2.59%
Hilb Rogal & Hobbs Co.	2.55%

LARGEST LOSSES

Hartford Financial Services	-51.62%
MBIA Inc.	-24.67%
Cincinnati Financial Corp.	-21.82%
MetLife Inc.	-21.71%
AEGON N.V.	-20.80%

Source: Financial Content Inc.
<http://financialcontent.com>



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Insurers scoff at reality dieter's fattened claims



David Fioravanti is charged with attempting to defraud insurance companies.

Mr. Fioravanti was eliminated from the first season of the NBC TV show that started in 2004 but won \$100,000 at a subsequent reunion contest.

According to the attorney general's office, Mr. Fioravanti purchased an insurance policy in 2002 to insure \$63,000 worth of jewelry. In 2003, the Boston man filed a police report claiming all the jewelry was stolen. Chubb Insurance Co. paid the entire claim, authorities said.

Later that year, though, Mr. Fioravanti insured the same jewelry with Vermont Mutual Insurance Co., but the insurer discovered the previous claim and canceled the policy. Then in 2004, Mr. Fioravanti again insured the jewelry plus additional items, this time with OneBeacon Insurance Co., which then turned to the Insurance Fraud Bureau of Massachusetts.

While investigating the case, authorities said they discovered that Mr. Fioravanti also fraudulently registered all his auto insurance policies with Arabella Mutual Insurance Co. to his mother's address in Marshfield, Mass. Authorities said he did this to pay lower auto insurance premiums.

The 43-year-old onetime reality show contestant is to be arraigned Nov. 4 in Suffolk County, Mass., prosecutors said.

A contestant on reality weight-loss show "The Biggest Loser" may have lost some pounds fair and square, but he was a little less honest when he tried to gain some dollars, according to authorities in Massachusetts.

In an indictment filed last week, the state's attorney general's office charged David Fioravanti with attempting to defraud insurance companies by filing multiple claims for jewelry he reported stolen and lying about where his vehicles were registered to get a lower auto premium.



The Tolkien Trust failed in their attempt to get damages from New Line Cinema for the film rights to 'The Lord of the Rings.'

Filmmakers keep 'Ring' royalties in their pocketses

Royalties from "The Lord of the Rings" film trilogy were their own, their love, their...preciousssss.

But Los Angeles Superior Court Judge Ann Jones ruled that the London-based Tolkien Trust, established by the heirs of late author J.R.R. Tolkien as a British charity, cannot seek punitive damages against Manhattan-based New Line Cinema for the film rights to the box-office hit trilogy "The Lord of the Rings."

The movie trio grossed \$6 billion worldwide, but New Line did not pay any royalties to Mr. Tolkien's heirs, the charity's trustees argued.

The trust had sought \$150 million in compensatory damages based on breach of contract, fraud and other claims.

Mr. Tolkien assigned film rights to "The Hobbit" and the "Rings" trilogy to United Artists in 1969. The Tolkien Trust was established after the author's death in 1971.

Attorneys at New Line argued that the Tolkien heirs had to establish a "public wrong" under New York law, which had jurisdiction over the contract, to claim damages.

Judge Jones agreed, ruling late last month that the trust's suit was "clearly seeking to vindicate private wrongs," reports said.

Business Insurance END PAGE

Contributing: Jeff Casale, Kristin Gunderson Hunt, Mark A. Hofmann, Mike Tsikoudakis

AIA Hong Kong cries phooey over fake letter

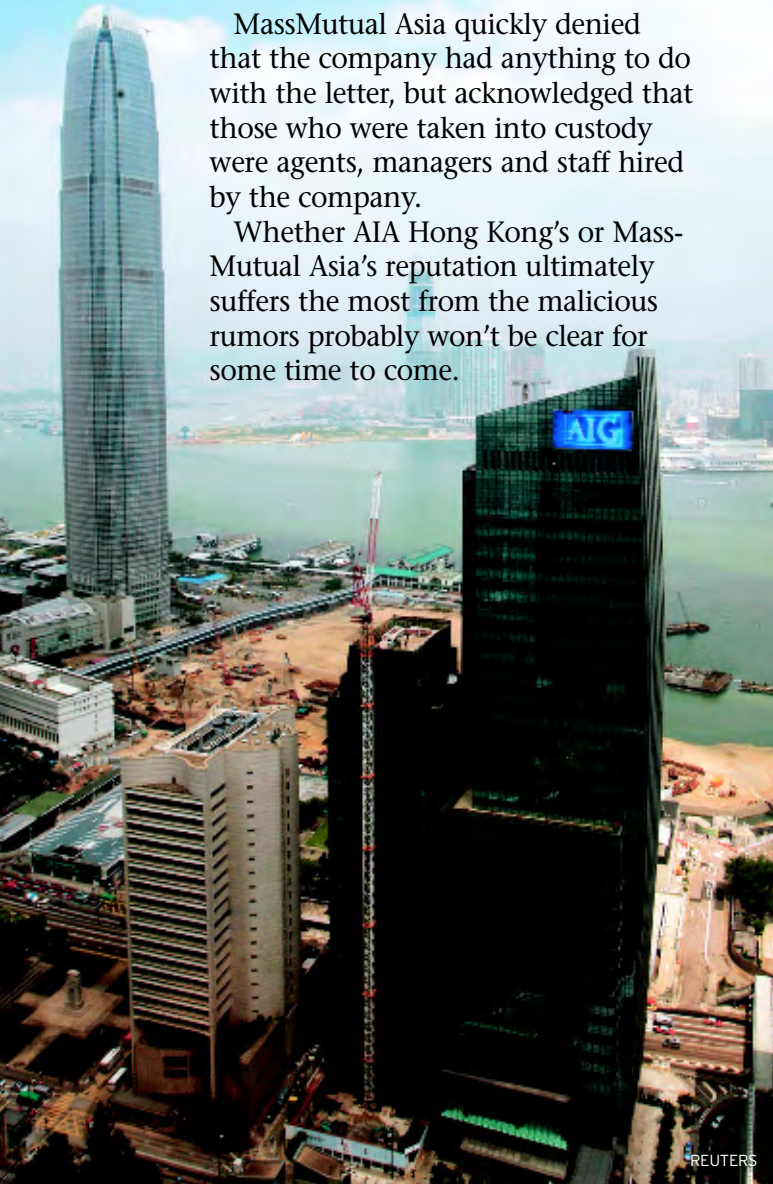
Insurers may be experts on their clients' reputational risks, but a Hong Kong-based subsidiary of American International Group Inc. had to deal with issues surrounding its own reputation, which was put at risk reportedly at the hands of a competitor's employees.

It seems that some customers of AIA Hong Kong received a letter in late September on the letterhead of rival insurer MassMutual Asia Ltd. The letter, which claimed that AIG planned to sell AIA Hong Kong, appeared to come from MassMutual Asia's customer service department, the Associated Press reported.

AIA Hong Kong notified authorities that the letter was a forgery, and police quickly arrested 11 people in connection with the fraudulent missive.

MassMutual Asia quickly denied that the company had anything to do with the letter, but acknowledged that those who were taken into custody were agents, managers and staff hired by the company.

Whether AIA Hong Kong's or MassMutual Asia's reputation ultimately suffers the most from the malicious rumors probably won't be clear for some time to come.



N.Y. judge won't bite on broker's corny suit

Life's all about taking risks—even when it comes to eating popcorn, a New York judge ruled.

On Sept. 17, 2007, insurance broker Steve Kaplan seated himself at the AMC-Lincoln Square Cinema in New York, armed with a freshly popped bag of popcorn, to watch "Superbad." All was well until Mr. Kaplan bit into a "hard object," which was a partially popped kernel, according to a suit he filed against the theater.

Mr. Kaplan left the theater 20 minutes later with a toothache and because he found "Superbad" to be a really bad movie, court documents state.

About three weeks later, he got his fractured tooth fixed and then reported the incident to theater management. He thought American Multi-Cinema Inc. might be willing to pay his \$1,250 dental bill. Not so.

He sued in Manhattan Civil Court. During trial, the theater manager testified a slotted scoop is used to eliminate as many unpopped kernels as possible. Despite these efforts, the manager testified it was impossible to entirely remove them.

Judge Matthew F. Cooper agreed, noting that anyone who has made popcorn "soon learns the bitter truth" that there almost always are unpopped, partially popped or burnt kernels. "Until such time as the same bioengineers who brought us seedless watermelon are able to develop a new strain of popping corn where every kernel is guaranteed to pop, we will just have to accept partially popped popcorn as part and parcel of the popcorn popping process."

Short of eating each kernel one at a time, the answer "may be simply to say no to popcorn," Judge Cooper ruled last month in rejecting the claim.



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Focus on key advisers for risk managers

BROKERS ARE KEY partners for commercial insurance buyers. Brokers advise clients on the most effective methods of risk management and risk transfer, seeking not just the best price but also the best terms and conditions that apply to an individual client's needs. For more than 36 years, *Business Insurance* has produced

annual rankings and reports about the brokerage industry. Our experienced staff also has covered broker news and trends in nearly every weekly issue as well as almost every day online. Senior Editor Sally Roberts, who has covered brokers for *BI* for more than 16 years, was a key member of the team that produced this special supplement. *BI* has witnessed and recorded many changes in the brokerage landscape over the decades. As you'll read in the following pages, the current market is presenting a variety of challenges for insurance brokers and their clients. We hope you find this supplement insightful and a prime example of the news and information that *Business Insurance* delivers. – REGIS COCCIA, EDITOR, BUSINESS INSURANCE

INSIDE THIS ISSUE

Anything but dull

High-profile management changes, huge acquisitions, contingent commission hearings and a spate of lawsuits all overshadowed by near-collapse of American International Group in mid-September.

page 2

Change continues

Willis pays \$2.1 billion in cash and stock for Hilb Rogal & Hobbs; Aon Re Global expands dominance with \$1.75 billion purchase of Benfield Group; CEOs exit two private equity-backed brokerages.

page 3

Differences

New York hearings point up conflicting opinions concerning contingent commissions; Marsh & McLennan adds to string of senior management changes.

page 4

Developments

Two former Marsh executives are convicted of antitrust law violations but acquitted of fraud and larceny charges; analysts optimistic that new Marsh leadership can restore its profits.

page 5

Moving on

Aon's Pat Ryan, who spent more than 40 years building the broker, retires; Aon, Marsh and Willis win state approval to collect contingents for three years on businesses that they acquire.

page 6

DATA AND LISTS

TOP 10 brokers page 7

Broker profiles page 8

Top 100 brokers page 10

Largest by type page 20

Broker Report 2008

Turbulent times continue for brokers

By SALLY ROBERTS

This year has been anything but dull for the insurance brokerage marketplace.

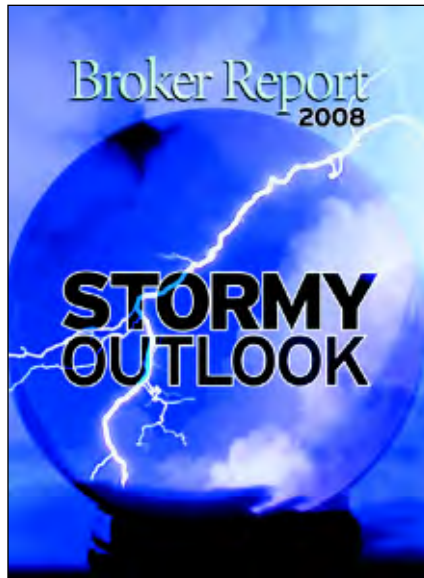
High-profile management changes, large-scale acquisitions, contingent commissions and legal actions have dominated the broker headlines so far this year.

But the biggest news to hit the brokerage industry so far has more to do with reaction to an event that was completely out of its control.

American International Group Inc.'s near-collapse in mid-September as a result of the subprime mortgage crisis sent panic throughout the industry, as AIG policyholders frantically called on their insurance brokers for advice on their placements.

While AIG's subsequent \$85 billion bailout gave clients more time to make rational decisions regarding their programs, brokers spent a great deal of time updating their clients on the situation, seeking alternative options and trying to instill a sense of calm in the turbulent environment.

But AIG has had company in making



major news this year.

Willis Group Holding Ltd.'s \$2.1 billion buyout of rival Hilb Rogal & Hobbs Co. and Aon Corp.'s \$1.75 billion acquisition of Benfield Group Inc. mark the largest buyouts of one broker by another in several years—a period that has seen private equity firms emerge as major buyers.

And Marsh & McLennan Cos. Inc.

made headlines this year first with the January hiring of Brian Duperreault to replace Michael G. Cherkasky as chief executive officer of the firm, and then by reporting better-than-expected second-quarter results.

Then there was the trial of former Marsh Inc. executives William Gilman and Edward J. McNenney, who were found guilty in February of violating New York's antitrust law and sentenced to 16 weekends in jail for their role in the broker's bid-rigging scandal.

Nearly four years after that scandal erupted, contingent commissions continued to make headlines. Not only are New York authorities mulling over potential new broker compensation regulations, but the world's largest brokers—which have nationwide settlement agreements that ban them from accepting contingent commissions—received permission in June to accept the incentive payments on acquired business for up to three years.

The industry also has seen the departure of several high-profile executives this year, including Patrick G. Ryan from Aon, Roger Egan from Integro Ltd. and Robert Lockhart from Kinloch Holdings.

AIG's trouble spotlights broker role as client advocate

A broker's role as a client advocate was never more important than in the days following the near-collapse of American International Group Inc. last month.

Brokers sought to advise clients about coverage placed with AIG and instill a sense of calm amid the chaos and uncertainty surrounding the insurance giant's liquidity crisis.

Initial fears of bankruptcy and a "run on the bank" mentality by insurance buyers gave way to some relief after the Federal Reserve Bank of New York agreed to extend to AIG an \$85 billion loan late on Sept. 16.

Brokers said the bailout gives their clients more time to evaluate their existing insurance programs and make rational decisions about whether to stick with AIG, which is expected to sell various units to raise capital to retire the Fed financing, or look elsewhere for coverage.

Most major brokers have been con-

ducting client conference calls and webcasts to keep clients up to date and how best to evaluate their situations. Several brokers also set up links on their Web sites providing clients with more information.

Brokers have stressed that AIG's liquidity crisis does not affect the assets available to pay claims. And despite ratings downgrades, AIG remains competitive and on brokers' approved guidelines for placement.

While many clients initially sought to

pull their business from AIG, most policyholders stayed put following the bailout, brokers said. Brokers, however, are working overtime for clients with Oct. 1 renewals, who are asking for options to AIG for their placements.

In some situations, clients are focusing on where AIG is positioned in their programs, and, in many cases are moving the insurer from a primary to an excess position, brokers say.

—By Sally Roberts



Complete coverage

Follow our in-depth and up-to-the-minute coverage of the AIG crisis online at:

www.businessinsurance.com/aig

Willis widens reach with HRH deal

After years of some stability among the rankings of the world's largest insurance brokers, Willis Group Holdings Ltd. shook things up in June with news that it was buying rival Hilb Rogal & Hobbs Co.

The \$2.1 billion cash and stock transaction, combining the world's third- and eighth-largest brokers, was seen as a good deal for the brokers and their clients.

It came less than a week after Willis and rivals Marsh Inc. and Aon Corp. struck a deal with state officials allowing them to collect contingent commissions for three years on businesses they acquire.

HRH collected between \$40 million and \$50 million in contingents in 2007, which Willis said it will phase out over the three-year grace period.

For London-based Willis, the addition of HRH would essentially double the number of offices it has in the United States, greatly expand its employee benefits segment and boosts its roster of middle-market clients.

Glen Allen, Va.-based HRH, on the other hand, would gain Willis' expertise in expense reduction and margin expansion, something it has at times struggled to achieve, observers say.

Willis and HRH offices overlap in relatively few locations, and clients should benefit from a continued emphasis on local service with an expansion of geographic reach, products and technical expertise offered by the combination, company officials and observers say.

The key to success, however, will depend partly on the combined company's ability to retain key employees, observers note.

Upon completion of the deal, which is expected in October, Willis said in September that it plans to launch Faber & Dumas Ltd. a London-based global wholesale operation using HRH's Lloyd's of London brokerage Glencairn Group Inc. as its initial platform.

While Willis said that Faber & Dumas will house other wholesale business, it remains to be seen whether the brokerage ultimately maintains HRH's U.S. surplus lines brokerage unit Bliss & Glennon Inc. Willis exited the U.S. wholesale market in 2005 when it divested Stewart Smith Group Inc., amid industry concerns over conflicts of interest that could arise from retail brokerages owning wholesale operations in the United States.

—By Sally Roberts



Mr. Egan



Mr. Lockhart

Founding executives leave brokerages

Two private equity-backed brokerages that were formed amid investigations into industry compensation practices lost their chief executive officers this year.

In September, Roger Egan left New York-based Integro Ltd. three years after founding the large-account broker with fellow Marsh Inc. alums Peter F. Garvey and Robert Clements and \$320 million in funding.

Mr. Garvey, who succeeded Mr. Egan, said that Mr. Egan and Integro's investors "agreed that it was time for a change."

Integro has since embarked on its first major cost-cutting initiative after investing heavily for the past three years in the brokerage's operations.

Before serving as Integro's CEO, Mr. Egan was asked to step down as president and chief operating officer of Marsh due to his accountability as a senior officer of the business units being investigated by former New York Attorney General Eliot Spitzer, not because of any suggestion of culpability.

In July, Robert Lockhart, CEO of middle-market brokerage Kinloch Holdings Inc., resigned two years after forming the New York-based firm with private equity backing.

No reason was given for Mr. Lockhart's departure, but it came amid news that Kinloch would pay nearly \$9.8 million to settle allegations that it violated restrictive covenants in employment contracts when it recruited several employees and clients from his former employer, Hilb Rogal & Hobbs Co.

Mr. Lockhart resigned as HRH's president and chief operating officer in May 2005 amid an investigation into improper payments received by an employee in its Hartford, Conn., office, which Mr. Lockhart headed at the time. Mr. Lockhart sued HRH in October 2006, alleging that he was improperly terminated, and settled that suit in March 2007.

Stephen Genatt, whose New Hyde Park, N.Y.-based brokerage Genatt Associates Inc. helped launch Kinloch, replaced Mr. Lockhart as CEO of the firm.

—By Sally Roberts

Benfield purchase strengthens Aon Re

Aon Re Global is set to expand its dominant position in the reinsurance market.

In August, Chicago-based Aon Corp. said it will pay \$1.75 billion in cash to acquire London-based Benfield Group Ltd., the world's third-largest reinsurance intermediary.

It plans to combine Benfield with Aon Re, the world's largest reinsurance broker, to create a new entity called Aon Benfield Re.

Combined, the reinsurance brokers reported \$1.63 billion in reinsurance revenues in 2007.

For Aon Re, Benfield not only strengthens its dominant position in the market but adds to its analytic capabilities and boosts its position in the Florida catastrophe market as well as developing markets, such as Asia.

While Benfield has gained a reputa-

tion over the years for innovation, proprietary technology and analytical capabilities, it has been plagued recently by the soft reinsurance market, the weak dollar and ceding clients assuming more risk, which have stymied growth.

Greg Case, president and chief executive officer of Aon Corp., described the deal as "very complimentary," with little overlap that will result in greater opportunities to help clients manage their capital.

But observers said the combination does result in fewer options for ceding insurers looking for a large reinsurance broker with extensive capabilities.

Following word of the acquisition, Marsh & McLennan Cos. Inc. denied media reports that it planned to outbid Aon for Benfield.

—By Sally Roberts

N.Y. considering new broker compensation rules

Agents, brokers, risk managers and others gathered at public hearings in New York state during the summer to give their views on whether contingent commissions should be allowed and whether full disclosure of compensation should be mandated for all brokers.

New York Insurance Superintendent Eric Dinallo and New York Attorney General Andrew Cuomo held the July hearings to gather information before issuing new regulations that address the compensation system established by their predecessors in 2005 and 2006 settlements with certain brokers and insurers.

The world's largest brokers,

whose settlements ban them from collecting contingent commissions and require significant disclosures, have criticized the current system, which they say puts them at a competitive disadvantage.

In all, state authorities heard testimony from more than 30 interested parties who expressed different views on the issues.

The Risk & Insurance Management Society Inc. and London-based Willis Group Holdings Ltd., for example, testified that contingent commissions create an inherent conflict of interest and should be prohibited for all brokers and independent agents that represent buyers.



New York Insurance Superintendent Eric Dinallo and Attorney General Andrew Cuomo held July hearings on broker compensation.

On the other hand, New York-based Marsh Inc. and Chicago-based Aon Corp. testified that full transparency is needed throughout the indus-

try and that marketplace competition will determine what forms of compensation ultimately survive.

Several independent agents who testified at all three hearings, though, stressed the differences between the world's largest brokers and smaller, independent agents and encouraged the panel not to punish independent agents for the wrongs of the megabrokers.

The agents testified that contingent commissions are a legal form of compensation and do not result in any conflicts of interest. They also support voluntary compensation disclosure at the request of clients.

—By Sally Roberts

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Marsh upper management overhauled

Marsh & McLennan Cos. Inc. rang in the New Year with another overhaul of its upper management.

Following the December hiring of former American International Group Inc. executive Daniel Glaser to lead its Marsh Inc. brokerage unit, MMC in late January tapped former ACE Ltd. Chairman and Chief Executive Officer Brian Duperreault to replace Michael G. Cherkasky at the helm of the financial services giant.

The hiring of Messrs. Glaser and Duperreault followed a string of senior management changes at the firm, which over the course of three years saw the departures of former MMC CEO Jeffrey W. Greenberg and former Marsh CEO Brian Storms.

The revolving door in Marsh's executive suite continued to turn following Mr. Glaser's appointment, with news in January that Philip Moyles, Marsh's CEO of the Americas, and Mark Feuer, Marsh's chief operating officer of U.S. operations, had resigned and a new Marsh senior management team had been put in place.

That team includes: Joseph M. McSweeney, a former Willis Group Holdings Inc. executive, who was named president of Marsh's U.S./Canada operations; Alexander Moczarski, a Marsh alum who was named president of its international division; Alexander W. Vietor,



Mr. Duperreault



Mr. Glaser

formerly of Aon Corp., who was named president of the broker's global specialties unit; and Marsh veteran Timothy J. Mahoney, who was named president of Marsh's global risk management unit.

Among other management changes, Peter Zaffino was named CEO of reinsurance brokerage unit Guy Carpenter & Co. L.L.C. to succeed David Spiller, who left the company. Ben Allen was named president and CEO of Kroll Inc., replacing Simon V. Freakley, who became CEO of the recently formed MMC corporate advisory and restructuring unit that was separated from Kroll.

And in August, MMC named its third chief financial officer in as many years with the hiring of Vanessa A. Wittman. She succeeded Matthew B. Bartley, who left the company.

—By Sally Roberts



LANDOV

William Gilman, left, and Edward J. McNenney were the first two Marsh Inc. executives sentenced in New York's bid-rigging investigation of the brokerage.

Broker execs sentenced for antitrust violations

In the first convictions to come out of New York's bid-rigging investigation of Marsh Inc., a judge in February found two former executives of the brokerage guilty of violating the state's antitrust law, but acquitted them of 20 other charges, including various counts of fraud and grand larceny.

William Gilman, a former managing director and executive marketing director in Marsh's Global Broking unit, and Edward J. McNenney, a former managing director and global placement director, were sentenced in April to 16 weekends in jail, 250 hours of community service and five years probation as a result of their conviction.

New York Supreme Court Justice James A. Yates stayed the sentences pending their appeals.

Messrs. Gilman and McNenney and six other former Marsh executives were indicted in 2005 on various counts of bid rigging and fraud by

then-New York Attorney General Eliot Spitzer and former State Insurance Superintendent Howard Mills. They were accused of colluding with certain insurers to arrange non-competitive excess casualty bids and conveying the bids to clients under false pretenses.

One of the indicted former executives, Edward J. Keane Jr., has since pleaded guilty to criminal charges.

At least 18 other individuals, including nine former Marsh employees, also have pleaded guilty to criminal charges stemming from the investigation.

Joseph Peiser, former managing director and head of global broking excess casualty; Greg Doherty, a former senior vp; and Kathleen M. Drake, a former managing director, are expected to go on trial later this year.

Also awaiting trial are former Marsh Senior Vps Thomas T. Green Jr. and William L. McBurnie.

—By Sally Roberts

Marsh plans more layoffs in restructuring effort

Recovery efforts at Marsh Inc. appeared to be well under way in August as the brokerage reported better-than-expected second-quarter results and a new restructuring plan.

After eliminating more than 500 positions during the first half of 2008, the world's largest broker said it would eliminate another 900 positions by the end of the year. The cuts will largely be made in the United States in corporate, back-office and nonclient-facing positions, Marsh said. About one-third of the eliminations will either be outsourced or managed through attrition.

The job cuts are in addition to 600 positions within Marsh's U.K. operation that were transferred earlier this year to London-based Capital Group P.L.C. under a back-office outsourcing deal.

In addition to job cuts, Marsh said it also is in the process of changing its U.S. operating model to a more segmented approach based on account size and serving

the diverse needs of large and middle-market clients.

It also plans to concentrate its U.S. insurance placement activities within various placement hubs rather than 60 offices throughout the country. The hub system will place client risks individually and be organized by business line, Marsh said.

Overall, Marsh said revenues grew 7.7% in the second quarter, to \$1.21 billion, with 3% organic growth. New business grew 6% in the quarter, led by Marsh's international units, while expenses remained flat despite \$22 million in severance-

related charges. That led to "significant improvement in margins" in the second quarter compared with a year ago, Daniel Glaser, Marsh's chief executive officer, said during an analyst call.

Analysts reacted positively to Marsh's results, noting they are optimistic about the ability of new management to restore profitability and margins at the brokerage.

—By Sally Roberts

7.7%

REVENUE
growth for
Marsh
in 2008's
second
quarter

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Ryan hands over reins of Aon to head Chicago Olympics bid

With Aon Corp.'s leadership transition complete, Patrick G. Ryan announced in March that he would retire from active involvement in the Chicago-based brokerage he built over more than 40 years.

Although Mr. Ryan handed over the reins of Aon's day-to-day operations to former McKinsey & Co. insurance consultant Gregory C. Case in 2005, he stayed on as executive chairman, building client relationships and supporting Mr. Case, president and chief executive officer, through the management succession.

With that change complete, Mr. Ryan said it was time to step down from the firm and focus on other endeavors,

including his efforts to bring the 2016 Olympic and Paralympic Games to Chicago. Mr. Ryan serves as chairman and CEO of Chicago 2016, the city's Olympic bid committee.

Over the four decades he spent at the helm of Aon and its predecessor firms, Mr. Ryan is probably best known for the instrumental role he played in the widespread brokerage consolidation movement in the 1990s. Aon's acquisitions during that period—including Hudig-Langeveldt Group B.V., Frank B. Hall & Co. Inc., Bain Hogg Group P.L.C., Alexander & Alexander Services Inc., Minet Group, Sodarcan Inc. and Jauch & Huebener KgaA—not only propelled the domestic brokerage into the global



Mr. Ryan

insurance marketplace but also touched off frustration in the risk management community over lack of choice among brokerages.

Aon's origins date back to 1964, when Mr. Ryan established Pat Ryan Associates, a small managing general agency that distributed specialty credit life insurance to automobile dealers.

Today, Aon has more than 500 offices in 120 countries, generating annual revenues in excess of \$7 billion.

—By Sally Roberts

Contingent agreements amended for large brokers

The world's three largest brokers further chipped away at their 2005 compensation settlements with agreements in May that permit them to collect contingent commissions on acquired business.

The amendments—reached with various state authorities—marked the latest change to the nationwide settlements reached by Marsh & McLennan Cos. Inc., Aon Corp. and Willis Group Holdings Ltd. in which they paid millions of dollars in client restitution and agreed to cease collecting the incentive payments to settle client-steering investigations.

Under the May amendments, acquired brokers of Marsh, Aon and Willis can continue accepting contingents for three years while the brokers phase them out and bring the acquired company into line with their current business practices.

The three brokers said the amendments promote fair competition as other brokers that have not introduced similar compensation reforms had an unfair advantage in bidding to acquire other brokers.

In 2006, Marsh, Aon and Willis reached separate but similar amendments giving them permission to accept additional profit-based commissions from insurers on business in which they act as a managing general agent or underwriting manager.

In 2007, the settlement agreements were amended to let the three brokers accept certain fees from insurers for brokerage transactions.

Under their 2005 settlements, Marsh and Willis reached their agreements with New York's attorney general and the state Insurance Department. Aon reached its agreement with the attorneys general of Connecticut, Illinois, New York and the insurance departments of New York and Illinois.

—By Sally Roberts



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World's 10 largest insurance brokers

Ranked by 2007 brokerage revenues

Rank	Company/Address	Phone/Web site	Chief executive	2007 brokerage revenues	% change	2007 employees	2007 offices
1	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-6000 www.mmc.com	Brian Duperreault, president/CEO	\$11,281,000,000	7.70%	56,100	700
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 www.aon.com	Gregory Case, president/CEO	\$7,096,000,000	7.74%	35,900	500
3	Willis Group Holdings Ltd. ¹ 51 Lime St., London EC3M 7DQ England	44-203-124-6000 www.willis.com	Joe Plumeri, chairman/CEO	\$2,463,000,000	5.80%	13,100	321
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/president/CEO	\$1,457,241,000	10.78%	9,102	150
5	Wells Fargo Insurance Services Inc. 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 wfis.wellsfargo.com	David J. Zuercher, chairman/president/CEO	\$1,282,130,000	27.10%	7,273	171
6	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London EC3N 2PH England	44-207-528-4444 www.jltgroup.com	Dominic Burke, group chief executive	\$947,346,400 ²	11.84%	5,436	75
7	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 www.bbt.com	H. Wade Reece, chairman/CEO	\$877,391,500	4.17%	3,947	102
8	Hilb Rogal & Hobbs Co. ² 4951 Lake Brook Drive, Glen Allen, Va. 23060	804-747-6500 www.hrh.com	Martin L. Vaughan, chairman/CEO	\$779,950,000	12.06%	4,200	140
9	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 www.bbinsurance.com	J. Hyatt Brown, chairman/CEO	\$757,642,624	7.06%	5,047	125
10	Lockton Cos. L.L.C. 444 W. 47th St., Suite 900, Kansas City, Mo. 64112	816-960-9000 www.lockton.com	David M. Lockton, chairman	\$728,203,000 ³	10.81%	3,864	45

¹ Willis Group Holdings Ltd. has entered an agreement to purchase Hilb, Rogal & Hobbs Inc. The deal is expected to be completed in the fourth quarter of 2008. ² British pound=\$2.0020 (2007) fiscal year ending Dec. 31. ³ Fiscal year ending April 30.

Source: BI survey

Researched by Kevin Edison and Karen Tucker

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TOP BROKERS 2008

RANK

1



Brian Duperreault,
president/CEO

MARSH & McLENNAN COS. INC.

2007 GROSS REVENUES

\$11,633,000,000



7.3%

2007 BROKERAGE REVENUES

\$11,281,000,000



7.7%

The leaders of Marsh & McLennan Cos. Inc. and retail brokerage subsidiary Marsh Inc. are taking steps to restore profitability at the world's largest brokerage.

2007 was a difficult year for MMC, said Chairman Stephen R. Hardis, who described MMC's performance in its annual report as disappointing and unacceptable.

Those results, which included a 25% drop in 2007 operating income within its risk and insurance services segment and a 12% drop in consolidated operating income, prompted the board to make key leadership changes.

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

In January, former ACE Ltd. Chairman and CEO Brian Duperreault was named president and CEO of parent MMC. He replaced Michael

G. Cherkasky, who successfully brokered MMC's \$850 million bid-rigging settlement with New York authorities in early 2005 but was unable subsequently to return the firm to prosperity.

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

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

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

At the same time, he also has taken steps to fix some of the underperforming parts of MMC.

In May, he announced MMC would lay off more than 300 Guy Carpenter & Co. L.L.C. employees—more than 10% of the unit's workforce—after a 6.5% drop in first-quarter revenues to \$273.0 million, which executives blamed on the soft market, higher retentions and a decline in new business. That move followed the February announcement that Peter Zaffino would succeed David Spiller as CEO of the reinsurance unit.

The following month, Mr. Duperreault named Ben Allen president and CEO of Kroll Inc. to replace Simon V. Freakley, who became CEO of the newly formed MMC corporate advisory and restructuring unit that was separated from Kroll.

Whether MMC divests the

rest of Kroll or is able to integrate the business with other MMC operating units remains to be seen. Mr. Duperreault said Kroll needs to be better run and operated before he can determine any synergies.

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



'When I look at Marsh as an organization, I do not find it to be a broken organization at all.'

Daniel S. Glaser,
Marsh Inc.

"When I look at Marsh as an organization, I do not find it to be a broken organization at all," said Mr. Glaser.

He said turnaround plans are being implemented. In what he called "the first wave," Mr. Glaser established his own management team and reorganized the brokerage's global structure to include a new international division. He streamlined reporting structures and established better profit-and-loss accountability with managers.

The "second wave," which has begun, is dealing with organizational realignment, placement hubs and expense reductions.

While Mr. Glaser would not comment on specifics of a major restructuring effort at Marsh, the brokerage has since announced plans to cut 900 positions by the end of the year. That is on top of the 500 positions cut in the first

half of 2008.

In June, Marsh announced the formation of Bowring Marsh as its specialty international placement broker for property/casualty risks. The division has teams in Bermuda; Dublin, Ireland; London; Miami; Singapore; and Zurich, Switzerland.

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

In addition, Marsh says it has started an account-by-account review of its large-account business to make sure the firm is adequately paid.

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

Meyer Shields, an analyst with Stifel, Nicolaus & Co. Inc. in Baltimore, said he's optimistic about Marsh's future. "As difficult as this business is in generating revenue growth and expanding margins to normalized levels, there's no reason in the world why a unit like Marsh U.S. should be losing money," Mr. Shields said.

—By Sally Roberts

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

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

In August, the brokerage announced plans to significantly boost its reinsurance brokerage operations with the purchase of London-based Benfield Group Ltd.

Aon itself, though, lost a key executive recently when its founder, Patrick G. Ryan, retired.

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

"Consistent performance is very important to us," said Ted T. Devine, president of Aon Risk Services and executive vp of Aon Corp.

As part of its growth effort, Aon earlier this year consolidated its worldwide retail brokerage operations into the single Aon Risk Services unit that Mr. Devine leads with Steve McGill, CEO of the unit. The move, bringing approximately 26,000 Aon employees together in a coordinated worldwide operation, is aimed at better aligning the business while cutting costs, Mr. Devine said.

Aon posted nearly \$7.10 billion in brokerage revenues in 2007, up from \$6.59 billion in 2006, ensuring it retained its status as the world's second-largest broker in the 2008

Business Insurance ranking.

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

After-tax proceeds from the transactions were approximately \$2.7 billion, according to Aon.

On the acquisition side, Aon is buying Benfield for \$1.75 billion. The deal will combine Aon Re, which already is the world's largest reinsurance intermediary, with \$958 million in 2007 reinsurance revenues, with Benfield, the third largest, with £339.2 million (\$673 million) in revenues.

Grahame Chilton, CEO of Benfield, will become vice chairman of Aon Group and will join the executive committee of Aon Corp. and of Aon Benfield Re.

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

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

Mr. Devine said he expects Aon to continue recruiting brokerage staff.

He also expects Aon to

"make several more strategic niche investments."

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

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

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

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

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

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

"On remuneration, we have come out publicly as against contingents and we continue to maintain that stance

TOP BROKERS
2008

RANK
2



Gregory Case,
president/CEO

AON CORP.

**2007 GROSS
REVENUES**
\$7,471,000,000

↑
8.6%

**2007 BROKERAGE
REVENUES**
\$7,096,000,000

↑
7.7%

because we believe they are misaligned with delivering value," Mr. Devine said.

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

At the same time, he said he opposes the existing system. "The thing that I think is very destructive, frankly, to the industry and I think to the client, is the two-tier regulatory environment we operate in today," Mr. Devine said.

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

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

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

—By Rodd Zolkos

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

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

2007 rank	Company	2007 revenue	% change
1	Marsh & McLennan Cos. Inc.	\$5,527,690,000	3.48%
2	Aon Corp.	\$2,696,480,000	-0.14%
3	Arthur J. Gallagher & Co.	\$1,282,372,080	9.54%
4	Wells Fargo Insurance Services Inc.	\$1,282,130,000	27.10%
5	Willis Group Holdings Ltd. ¹	\$1,059,090,000	-3.21%
6	BB&T Insurance Services Inc.	\$877,391,500	4.17%
7	Brown & Brown Inc.	\$757,642,624	7.06%
8	Hilb Rogal & Hobbs Co. ¹	\$725,353,500	6.23%
9	USI Holdings Corp.	\$617,083,000	12.96%
10	Lockton Cos. L.L.C.	\$502,460,070 ²	10.81%
11	Hub International Ltd.	\$484,675,580	23.70%
12	Wachovia Insurance Services Inc.	\$422,453,748	-6.35%
13	Alliant Insurance Services Inc.	\$291,343,365	27.64%
14	Leavitt Group	\$174,750,450	19.54%
15	Jardine Lloyd Thompson Group P.L.C.	\$161,048,888	11.84%
16	CBIZ Benefits & Insurance Services Inc.	\$143,147,000	24.80%
17	Keenan & Associates	\$123,332,000	-6.73%
18	Frank Crystal & Co. Inc.	\$119,680,000	6.34%
19	Bollinger Inc.	\$104,613,278	0.71%
20	Meadowbrook Insurance Group Inc.	\$103,908,000	5.24%
21	Regions Insurance Group Inc.	\$103,485,000	23.87%
22	John L. Wortham & Son L.P.	\$99,864,000	5.53%
23	Hays Group Inc. dba Hays Cos.	\$97,400,000	14.59%
24	J. Smith Lanier & Co.	\$96,572,647	18.86%
25	Hylant Group	\$90,240,264	0.25%

2007 rank	Company	2007 revenue	% change
26	Tanenbaum-Harber Co. Holdings Inc.	\$90,031,489	15.83%
27	Mesirow Insurance Services Inc.	\$89,055,876 ³	10.74%
28	Holmes Murphy & Associates Inc.	\$87,959,385	11.18%
29	Allied North America	\$85,955,028	13.31%
30	Neace Lukens Holding Co.	\$77,541,413	18.77%
31	Conner Strong Cos. Inc. ⁴	\$76,104,000	N/A
32	Insurance Office of America Inc.	\$75,492,147	17.93%
33	NIA Group L.L.C.	\$74,800,000	-4.83%
34	BancorpSouth Insurance Services Inc.	\$73,553,163	9.75%
35	IMA Financial Group Inc.	\$72,655,068	5.08%
36	Beecher Carlson Holdings Inc.	\$71,716,400	33.42%
37	Heffernan Group	\$69,446,000	10.05%
38	Rutherford Cos.	\$69,039,440 ⁵	15.82%
39	Guaranty Insurance Services Inc.	\$68,343,205	-0.58%
40	Huntington Insurance Inc. dba Sky Insurance Inc.	\$63,397,700	-8.94%
41	Trion Group Inc. dba Trion	\$62,600,000	25.70%
42	James B. Oswald Co. dba Oswald Cos.	\$61,225,560	13.98%
43	Compass Insurance Agency Inc.	\$60,280,752	-10.21%
44	Woodruff-Sawyer & Co.	\$57,000,000	11.84%
45	Associated Financial Group L.L.C.	\$54,279,428	-1.75%
46	InterWest Insurance Services Inc.	\$52,166,273	2.25%
47	Frenkel & Co. Inc.	\$51,434,900	1.56%
48	Barney & Barney L.L.C.	\$51,365,160	12.72%
49	Integro USA Inc.	\$51,300,000	14%
50	Western States Insurance	\$50,487,817	15.28%

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

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

2007 rank	Company	2007 revenue	% change	2007 rank	Company	2007 revenue	% change
51	Cottingham & Butler Inc.	\$50,302,000	5.75%	76	Propel Insurance ⁶	\$33,875,000	4.84%
52	Wausau Signature Agency	\$50,193,570	0.39%	77	Scott Insurance	\$33,434,000	10.67%
53	Marshall & Sterling Enterprises Inc.	\$48,725,929	9.22%	78	Fred A. Moreton & Co.	\$33,259,000	8.90%
54	Mahoney Group	\$48,312,114	-0.39%	79	Fringe Benefits Management Co.	\$32,941,652	-2.39%
55	TD Banknorth Insurance Agency Inc.	\$48,291,934	-4.83%	80	Loomis Co.	\$32,805,400	2.10%
56	Capacity Group of Cos.	\$48,085,187	12.91%	81	Frost Insurance Agency Inc.	\$31,209,555	9.21%
57	Van Gilder Insurance Corp.	\$47,703,647	-0.85%	82	TrueNorth Cos.	\$31,149,295	21.03%
58	First Niagara Risk Management Inc.	\$46,195,279	5.55%	83	Payne Financial Group Inc.	\$30,912,608	6.02%
59	William Gallagher Associates Insurance Brokers Inc.	\$45,923,675	10.13%	84	Seitlin	\$30,834,157	4.42%
60	Horton Group Inc.	\$ 43,380,227	2.92%	85	Dawson Cos.	\$30,370,904	-5.15%
61	Graham Co.	\$42,707,169	2.10%	86	Parker, Smith & Feek Inc.	\$30,216,200	7.85%
62	DeWitt Stern Group Inc.	\$42,593,760	12.81%	87	Cobbs, Allen & Hall Inc.	\$30,065,723	18.47%
63	Eastern Insurance Group L.L.C.	\$40,808,285	15.12%	88	Lovitt & Touche Inc.	\$29,074,901	1.50%
64	Riggs, Counselman, Michaels & Downes Inc.	\$40,777,241	7.72%	89	SilverStone Group Inc.	\$29,024,000	16.80%
65	Kinloch Holdings Inc.	\$40,590,000	50.33%	90	Starkweather & Shepley Insurance Brokerage Inc.	\$28,675,000	-2.34%
66	Jenkins Insurance Group	\$39,109,000	3.67%	91	Haylor, Freyer & Coon Inc.	\$25,700,400 ⁷	-2.24%
67	McQueary Henry Bowles Troy L.L.P.	\$38,456,000	2.28%	92	R.C. Knox & Co. Inc.	\$25,379,000	-4.64%
68	Higginbotham & Associates Inc.	\$38,453,627	15.59%	93	Robertson Ryan & Associates Inc.	\$24,907,096	4.14%
69	North American Insurance Agency Inc. dba North American Group	\$38,041,717	17.19%	94	Risk Strategies Co.	\$24,624,500	39.28%
70	Andreini & Co.	\$37,500,000	4.17%	95	Daniel & Henry Co.	\$23,425,000	0.08%
71	Bowen, Miclette & Britt Inc.	\$36,299,006	9.54%	96	J. Rolfe Davis Insurance	\$22,851,000	-1.24%
72	Lawley Service Inc	\$36,108,367	11.86%	97	RJF Agencies Inc.	\$22,746,000	-1.87%
73	ONB Insurance Group	\$35,374,867	-3.02%	98	Schiff, Kreidler-Shell Inc.	\$22,198,000	0.68%
74	Assurance Agency Ltd.	\$34,860,500	12.17%	99	PSA Financial Center & Affiliates	\$22,139,404 ²	61.60%
75	Roger Bouchard Insurance Inc.	\$34,404,220	3.64%	100	Bolton & Co. Insurance Brokers	\$21,289,941	2.17%

*Companies that derive less than 20% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 Willis Group Holdings Ltd. has entered an agreement to purchase Hilb, Rogal & Hobbs Inc. The deal is expected to be completed in the fourth quarter of 2008. 2 Fiscal year ending April 30. 3 Fiscal year ending March 31. 4 Formerly Commerce Insurance Services Inc. formed by a group led by its chairman George E. Norcross III and president/CEO Michael Tiagwad. 5 Fiscal year ending June 30. 6 Formerly Bratrud Middleton Insurance Brokers Inc. 7 Fiscal year ending August 31.
Source: B/I survey

Supplement sponsored by



TOP BROKERS 2008

RANK

3



Joe Plumeri,
chairman/CEO

WILLIS GROUP HOLDINGS LTD.

2007 GROSS REVENUES

\$2,578,000,000

↑
6.2%

2007 BROKERAGE REVENUES

\$2,463,000,000

↑
5.8%

Willis Group Holdings Ltd. will significantly expand several areas of its business with the completion of its \$2.1 billion acquisition of Hilb Rogal & Hobbs Co.

The combination of the third- and eighth-largest brokers, as ranked by *Business Insurance* would essentially double the number of offices London-based Willis has in the United States, greatly expand its employee benefits segment, boost its middle-market efforts, while bringing Willis' expertise in expense reduction and margin expansion to a company that has at times struggled with both, analysts say.

Shortly after the acquisition was announced, Willis and HRH executives toured the brokerages' offices to talk with staff about the deal, which is expected to close this month.

"Uncertainty is not something you want in a people-based business, so we're working very hard to take as much uncertainty off the table as possible," said Don Bailey, chief executive officer of Willis North America.

Alleviating concerns employees may have is important given the potential for defections of key producers and clients due to

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

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

The deal will see a significant growth in North American business for Willis. Currently, about 30% of its business is from North America, but after the deal closes, the region will account for about 45% of revenues.

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

Willis reported 2007 brokerage revenues of \$2.46 billion, up 5.8%, while commercial retail brokerage revenues rose 10.5% to \$1.45 billion. Adding in HRH's roughly \$780 million in 2007 brokerage revenues gives the combined company pro forma brokerage revenues of \$3.24 billion.

Although Willis has consistently achieved organic growth in the past few years, it stalled in the fourth quarter of 2007. Willis reported a 7.0% drop in its North

America segment's organic growth and zero organic growth overall in the quarter.

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

In addition to shortfalls in its North American operations, reinsurance brokerage revenues were "significantly affected" by declining premium rates and higher retentions taken by

2006. Shaping Our Future is a series of initiatives designed to deliver profitable growth, including identifying clients and determining how to provide solutions to best serve clients' business in all product areas. All performance compensation is linked to achieving Shaping Our Future targets, Mr. Plumeri said.

Promoting fair competition among brokers in terms of compensation is another critical issue for Mr. Plumeri.

He says he still opposes the acceptance of contingent commissions in any form despite the fact that Willis—along with Marsh and Aon—recently obtained



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

Don Bailey,
Willis North America

insurers throughout 2007, Willis said.

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

The soft market, though, cannot be an excuse to stop growing, Willis executives stressed.

"Our intention is to always grow in any market conditions," said Willis Chief Financial Officer Patrick Regan.

Since the insurance industry is in a soft market about 80% of the time, executives must run the business on that assumption, Mr. Bailey said.

Striving for more growth, Willis says it will move forward on a global basis with its Shaping Our Future strategy announced in late

permission from state authorities to collect contingents paid to an acquired company for three years after a deal.

"We're accepting them for the purpose of making (the HRH acquisition)," Mr. Plumeri said. "I can't put my company in a position where we can't grow by standing on a high ground that disallows us to grow. Because we take them for the purposes of the economics of the deal doesn't mean I feel differently about them."

The deal also will bring Willis back in to the wholesaling business, which it exited shortly after the 2004 industry investigations. Willis recently announced plans to launch a wholesale unit in London that will include an HRH unit. Willis has not disclosed its plans for HRH's U.S. wholesale unit.

—By Gloria Gonzalez

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

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

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

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

Arthur J. Gallagher comprises three segments: brokerage, including retail and wholesale; risk management, which includes property/casualty third-party

administration services for self-insured clients and insurers; and financial services, which encompasses interests in clean-energy and other investment fund entities. The brokerage segment accounted for almost 90% of the company's 2007 revenues. The company has been winding down its financial services business over the past several years and intends to sell most of the remaining business this year. Last year, the financial services division generated about 4% of the company's total business.

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

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

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

While organic growth during the soft market has been difficult for brokers generally, Arthur J. Gallagher reported 2% organic growth in commissions and fees in 2007. Employee benefits

revenues jumped 22.5% last year, to \$236.6 million. Wholesale operations grew almost 7%, to \$192.0 million, of which wholesale brokerage generated \$125.7 million in revenue, up 5.9%.

The company also reported \$4.1 million in retail contingent commissions last year, up from \$2.5 million in 2006. Under an agreement with state attorneys general, Arthur J. Gallagher may acquire agencies and brokerages that accept contingents but must phase them out within three years. Contingent income, however, is just a fraction of what it collected three years ago. In 2005, the brokerage had \$28.8 million in retail contingent commissions.

Fee-based brokerage revenue increased 16% last year, compared with 9% growth in commissions, though about one-fourth of Arthur J. Gallagher's brokerage revenues come from fees.

Acquisitions of people and other firms have been highlights, Mr. Gallagher said.

"When you step back and look at 2007 and into 2008, it was the best merger and acquisition year we've ever had. We did 21 deals for \$100 million in revenue," he said.

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

Since the last soft market, in the 1990s,

**TOP BROKERS
2008**

RANK
4



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

ARTHUR J. GALLAGHER & CO.

2007 GROSS REVENUES	\$1,623,300,000	↑ 10.4%
2007 BROKERAGE REVENUES	\$1,457,241,000	↑ 10.8%

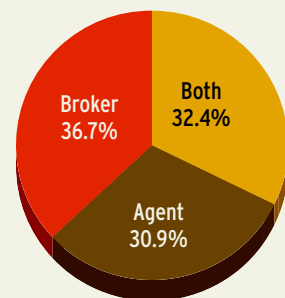
Gallagher has added operations. "Now we've got multiple opportunities to grow the business. We've got the biggest and best TPA in the business, the highest-quality provider in the business. We've been the fastest-growing Lloyd's broker the last six years. Our property/casualty retail business has gotten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

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

—By Regis Coccia

AGENT OR BROKER

Business type of all companies listed in BI's directory. Agents represent insurers, while brokers represent buyers.



Source: BI survey

TOP BROKERS 2008

RANK
5



David J. Zuercher,
chairman/president/CEO

WELLS FARGO INSURANCE SERVICES INC.

**2007 GROSS
REVENUES**
\$1,481,870,000

↑
24.8%

**2007 BROKERAGE
REVENUES**
\$1,282,130,000

↑
27.1%

Bank-owned Wells Fargo Insurance Services Inc. continues to grow through acquisitions and cross-selling products between its banking and insurance sectors, company executives said. And acquisitions are likely to remain a key source of the brokerage's growth during the next year, observers say. WFIS' brokerage revenues grew to \$1.28 billion in 2007, up 27.1% from 2006. WFIS attributed the bulk of the increase to acquisitions and the rest to organic growth.

The brokerage, which has approximately 170 offices in 37 states, is fifth in the 2008 *Business Insurance* ranking of the world's largest brokers based on 2007 brokerage revenue.

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

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

than a year ago.”

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

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

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

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

While ABD currently is a separate entity, Mr. Zuercher said the name will be retired at the end of this year and operations will be integrated under WFIS on Jan. 1, 2009.

Fallout wasn't entirely avoided, however. ABD President and CEO Dan R. Francis resigned just a few

days after Wells Fargo announced the Greater Bay acquisition. Mr. Francis later co-founded Edgewood Partners Insurance Center, a San Mateo, Calif.-based property/casualty and employee benefits brokerage, with John G. Hahn, former president of BISYS Commercial Insurance Services Inc. in San Francisco.

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

of Hales & Co., an advisory and investment banking firm, said he expects Wells Fargo to be a leading acquirer of insurance services firms this year.

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

While the bank appears to be staying the course with its insurance brokerage, it has made one change recently. In mid-July, WFIS became the exclusive manager of the HLA Global Network, which was established in 2001 through a joint venture. It has been



‘WFIS risk management practice brings in approximately \$100 million in revenue a year from about 500 customers.’

Scott Isaacson, Wells Fargo Insurance Services Inc.

organization on down.

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

“It's a great strategy on paper,” Mr. Wicher said. “Execution is a lot more difficult. Historically, it's been tough to get those cultures to work together.”

Mr. Zuercher said cross-selling has been effective for Wells Fargo, and the company has no intention of divesting its insurance brokerage services as many other banks have done. Instead, the brokerage business is poised for growth and acquisitions will continue to be a major means of growth, he said.

Rob Lieblein, a Harrisburg, Pa.-based managing partner

renamed the Wells Fargo Global Broker Network to deliver international insurance and risk management services and solutions and extend the Wells Fargo brand, Mr. Isaacson said.

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

—By Kristin Gunderson Hunt

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

JLT, which derives a large portion of its revenue in dollars but faces a mostly pound-denominated cost base, saw gross revenues rise to £495.9 million (\$992.8 million) in 2007, up 12.5% from the previous year, and an 8% increase in profit.

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

With £473.2 million (\$947.3 million) in 2007 brokerage revenue, JLT is the sixth-largest broker in *Business Insurance's* 2008 ranking.

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

Against a soft market and

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

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

JLT "spent a great deal of time in 2007 seeing how we could better position our businesses given the opportunities that are out there," Mr. Burke said. Among other activities, JLT expanded internationally, moved to grow its employee benefits and reinsurance businesses and entered ventures to serve small to midsize accounts.

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

Another growth area in

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

In December, JLT said it had formed underwriter Thistle Underwriters Ltd., "a vehicle for a new, systematic, ambitious approach to the operation of binding authorities and the conduct by JLT of underwriting activities generally," Mr. Burke said.

JLT last year continued its focus on wholesale business, acquiring Bermuda-based independent brokerage Park (Bermuda) Ltd. in July.

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

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

Earlier this year, JLT bought London-based HWS Holdings Ltd. and its Lloyd's of London-based subsidiaries, reinsurance broker Harman Wickes & Swayne Ltd. and small to medium enterprise insurance product wholesaler Harman Wickes & Swayne International Ltd.

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

TOP BROKERS 2008

RANK

6

JARDINE LLOYD THOMPSON GROUP P.L.C.

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

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



Dominic Burke,
group chief executive

United Kingdom, there is a lot of activity, he noted.

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

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

JLT sees opportunities to grow its benefits business in the United Kingdom as well as in Asia, Mr. Burke said. "In the emerging economies throughout Asia, including China, there is a growing enfranchisement as more people move into employment. And therefore savings and protection policies are going to be an... increasingly important part of their financial planning and therefore there are obviously opportunities for JLT. We are in some 11 countries and two provinces, so we have got great footprint, a great infrastructure, a great brand," he said.

—By Sarah Veysey

EUROPEAN COMMERCIAL RETAIL BUSINESS OF THE TOP 10 BROKERS

Company	2007 European commercial brokerage revenue*
Marsh & McLennan Cos. Inc.	\$1,688,000,000
Aon Corp.	\$2,023,600,000
Willis Group Holdings Ltd. ¹	\$561,000,000
Arthur J. Gallagher & Co.	\$13,296,000
Wells Fargo Insurance Services Inc.	—
Jardine Lloyd Thompson Group P.L.C.	\$293,893,600 ²
BB&T Insurance Services Inc.	—
Hilb Rogal & Hobbs Co. ¹	\$12,578,000
Brown & Brown Inc.	—
Lockton Cos. L.L.C.	\$117,105,000 ³

*Revenue for European offices. ¹ Willis Group Holdings Ltd. has entered an agreement to purchase Hilb, Rogal & Hobbs Co. The deal is expected to be completed in the fourth quarter of 2008. ² British pound=£2.0020 (2007) fiscal year ending Dec. 31. ³ Fiscal year ending April 30.

Source: BI survey

TOP BROKERS 2008

RANK

7



H. Wade Reece,
chairman/CEO

BB&T INSURANCE SERVICES INC.

2007 GROSS REVENUES

\$974,384,500

↑
11.0%

2007 BROKERAGE REVENUES

\$877,391,500

↑
4.2%

BB&T Insurance Services Inc. used organic growth, strategic acquisitions and strong client retention to grow despite the soft market in 2007, its chief executive said.

In 2008 the Raleigh, N.C.-based company, a unit of banking parent BB&T Corp., continues to use a cross-selling strategy to help win new business and is making more deals as it continues to grow, albeit at a slower pace than in recent years.

And its purchase of the insurance broking operation of a rival bank has seen it significantly spread its geographic reach along the West Coast.

BB&T posted gains in premium volume despite the soft market. In 2007, premiums for business it placed reached \$10.15 billion, up 11% from the previous year.

Its brokerage revenue for 2007 was nearly \$877.4 million, an increase of almost 4.2% over 2006. That was off from the 11.2% growth in 2006 compared with 2005.

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

ranking.

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

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

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

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

BB&T's sales culture has been one major factor driving organic growth, an issue with ongoing importance given that the market continues to be soft, Mr. Campbell said.

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

BB&T will continue to seek acquisitions in geographic locations where its parent has strong banking operations, he said.

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

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

'Employee benefits represent the fastest-growing segment of BB&T Insurance Services, generating more than \$60 million in revenue in 2007.'

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

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

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

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

BB&T made four acquisitions in 2007, purchasing property/casualty agencies and employee benefits operations in Georgia, Florida and South Carolina.

One of its acquisitions this year was the insurance unit of rival bank Union Bank of California N.A. The April

acquisition of San Diego-based UnionBanc Insurance Services Inc. adds to California operations that already include wholesale arm CRC Insurance Services, which BB&T bought in 2002, and large-account commercial broker McGriff, Seibels & Williams, which BB&T bought in 2003.

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

The purchase price was not disclosed. But in *BI*'s 2007 ranking, UnionBanc was the 31st-largest broker of U.S. business.

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

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

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

Aside from acquisitions that would increase BB&T's presence in major metropolitan areas, the company is looking to increase its employee benefits practice as a way to diversify its business, Mr. Reece said.

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

—By Colleen McCarthy

The acquirer has become the acquisition.

That pretty much sums up what has happened to Glen Allen, Va.-based Hilb Rogal & Hobbs Co. Known for its aggressive growth by acquisition, HRH announced in June that it had agreed to be acquired by London-based Willis Group Holdings Ltd. for \$2.1 billion in a deal that should be completed by the end of the year.

Ironically, the buyout came after HRH closed its most active year in terms of acquisitions in its history, making 10 acquisitions with more than \$150 million in combined annualized revenue.

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

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

HRH's gross revenues for the first quarter of this year

grew 4.4% to \$206.83 million. Profits, however, dropped more than 38% to \$15.5 million for the quarter. Contingent commissions in the first quarter dropped 27% to \$24.2 million.

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

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

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

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

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

He said the deal gives Willis three times as many locations as it had previously, "which would probably take 20 years of hard work to build that out." It gives HRH "an instant global network" that would have taken "decades to build."

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

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

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

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

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

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

"We would think in most cases, customers would want to continue working with those agents and brokers they have relationships with. Inevitably, some would view it as an opportunity to shop their programs," he said.

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

TOP BROKERS 2008

RANK

8

HILB ROGAL & HOBBS CO.

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

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



Martin L. Vaughan III,
chairman/CEO

offices in the United States.

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

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

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

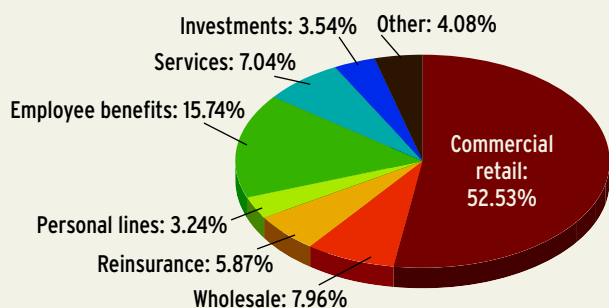
Mr. Crowley noted that the company added a new power and utility practice, formed a northeast region and continued to expand its capabilities in the employee benefits areas.

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

—By Mark A. Hofmann

BUSINESS BREAKDOWN OF THE TOP 10 BROKERS

Areas contributing to the largest brokers overall revenue



Source: BI survey

TOP BROKERS 2008

RANK

9



J. Hyatt Brown,
chairman/CEO

BROWN & BROWN INC.

2007 GROSS REVENUES

\$959,666,197



9.3%

2007 BROKERAGE REVENUES

\$757,642,624



7.1%

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

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

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

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

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

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

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

Revenues produced by the wholesale brokerage unit grew a more robust 10.1% to almost \$175.3 million, excluding investment income.

'We're rounding out our purview of products we're offering our customers.'

J. Hyatt Brown,
Brown & Brown Inc.

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

The services division, which consists of third-party administration, consulting and managed health care business, reported a 9% revenue increase to \$35.5 million.

Despite soft market conditions, the brokerage

increased profits 10.8% to nearly \$191 million last year, Mr. Brown said.

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

The elder Mr. Brown will remain chairman after next year and concentrate on acquisitions.

The soft market has affected the brokerage.

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

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

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

Still, with \$959.7 million in gross revenues, a 9.3% increase, the firm nearly hit its short-term goal of \$1 billion in 2007.

But commercial insurance premiums continue to fall 15% to 30% this year.

Brown & Brown is looking far ahead of this year.

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

For example, the company has a goal of beefing up its

employee benefits business to 25% of gross revenues. Last year's employee benefits revenue ballooned 27.1% to nearly \$119.1 million, or 12.5% of gross revenues.

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

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

Decus is Brown & Brown's first international operation.

Still, Brown & Brown targets people rather than areas of business when making acquisitions, Mr. Brown said. In the first half this year, the firm acquired 17 companies that generate about \$77 million in annualized revenue, he said. Last year, the brokerage acquired 29 companies, which produced \$108 million in annualized revenue, he said.

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

—By Dave Lenckus

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

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

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

“We really do see this environment as an opportunity for clients and underwriters to grow in different ways than perhaps normal organic growth of premium,” said Mr. Lumelleau.

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

It’s “pretty extraordinary” that Lockton’s associates were able to generate the organic growth that it did “in the face of a soft market,” said Mr. Lockton. “That’s a result of maintaining an extremely high client retention rate, and a lot of companies making

the decision to make Lockton their new broker,” he said. Lockton has a 95% client retention rate.

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

As broker trends go, Lockton has not considered going public or being acquired, said Mr. Lockton.



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

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

“We think we offer a special model to the insurance buying public because our owners all work in the business,” he said.

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

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

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

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

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

In addition to offices in 12 states, the brokerage has retail offices in Bermuda, Brazil, China, Hong Kong, Ireland, Malaysia, Mexico, the

Philippines, Singapore, Thailand, the United Kingdom and Venezuela.

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

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

“The continued dislocation

**TOP BROKERS
2008**

David M. Lockton,
chairman

RANK
10

LOCKTON COS. L.L.C.

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

of the industry” will give the brokerage the ability to recruit “very talented people,” said Mr. Lumelleau.

According to Lockton, the brokerage added more than 100 employees at the vp level or above in past year. The brokerage has about a 5% turnover rate for “client-facing” employees.

Lockton has been able to attract some very good talent, said Mr. Wicher. “They’re generally viewed as an attractive place to be, so I give them a lot of credit.”

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

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

—By Judy Greenwald

Agents and Brokers 2008

LARGEST PRIVATELY OWNED BROKERS

Brokerage firms that are neither bank-owned nor publicly traded, ranked by 2007 brokerage revenues

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

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

LARGEST BANK-OWNED BROKERS

COMPANY	PARENT	2007 BROKERAGE REVENUES
Wells Fargo Insurance Services Inc.	Wells Fargo & Co.	\$1,282,130,000
BB&T Insurance Services Inc.	BB&T Corp.	\$877,391,500
Wachovia Insurance Services Inc.	Wachovia Corp.	\$422,453,748
Regions Insurance Group Inc.	Regions Financial Corp.	\$103,485,000
BancorpSouth Insurance Services Inc.	BancorpSouth Inc.	\$73,553,163
Guaranty Insurance Services Inc.	Guaranty Financial Group	\$68,343,205
Huntington Insurance Inc. dba Sky Insurance Inc.	Huntington Bancshares Inc.	\$63,397,700
Compass Insurance Agency Inc.	Compass Bancshares Inc.	\$60,280,752
Associated Financial Group L.L.C.	Associated Bancorp	\$54,279,428
TD Banknorth Insurance Agency Inc.	TD Banknorth Inc.	\$48,291,934
First Niagara Risk Management Inc.	First Niagara Financial Group	\$46,661,898
Eastern Insurance Group L.L.C.	Eastern Bank Corp.	\$40,808,285
ONB Insurance Group	Old National Bancorp	\$35,374,867
Frost Insurance Agency Inc.	Frost Bank	\$31,209,555
R.C. Knox & Co. Inc.	People's United Bank	\$25,379,000

Source: BI survey

Brokerage heavyweights

What do Marsh & McLennan Cos. Inc., Wells Fargo Insurance Services Inc. and Lockton Cos. L.L.C. have in common? They, respectively, are the leading retail broker, the largest bank-owned broker and largest privately owned broker based on 2007 revenue (see charts).

A DECADE OF GROWTH

The 10 largest brokers' revenues have risen for most of the past decade. In billions of dollars.



Source: BI survey

LEADING U.S. RETAIL BROKERS

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

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

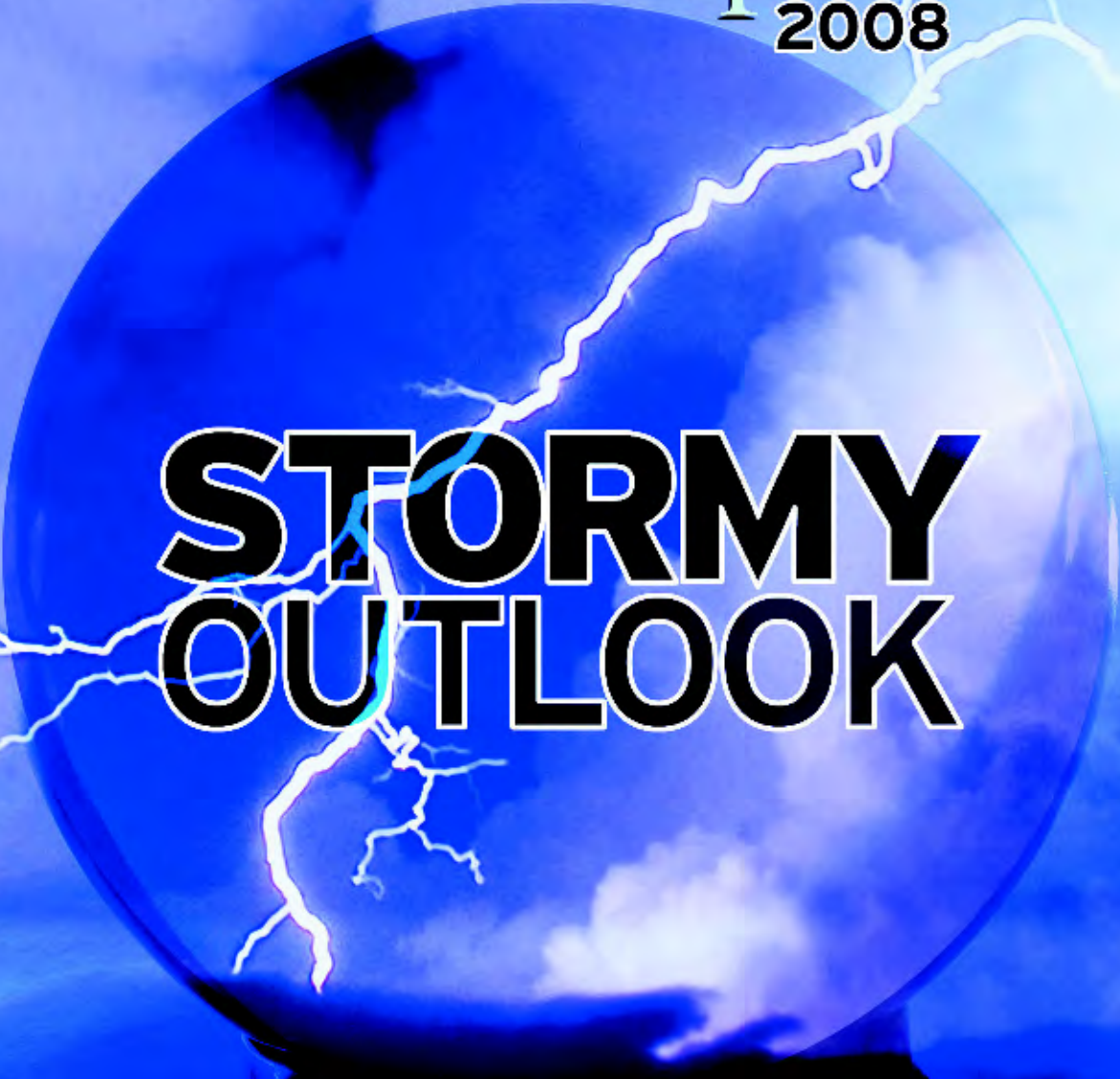
*Excludes revenue from the placement of employee benefits. 1 Willis Group Holdings Ltd. has entered an agreement to purchase Hilb Rogal & Hobbs Co. The deal is expected to be completed in the fourth quarter of 2008. 2 Fiscal year ending April 30.

Source: BI survey

Business Insurance[®]

A supplement to:

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2008

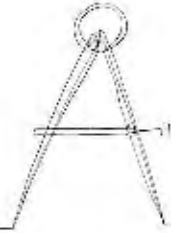


**STORMY
OUTLOOK**

What we do.



D&O, employment
practices liability, fiduciary



architects and engineers
professional liability



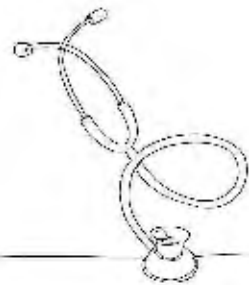
lawyers professional
liability



commercial property



technology, media and business
services professional liability



healthcare professional
liability

To see what we don't do, please turn to inside back cover.

beazley
Straight Answers

What we don't do.



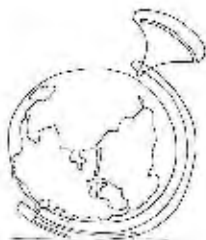
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after-hours
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dark pool
promissories



transmarket
short puts



exchange-traded
synthetic futures



illiquid
tranche options

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