

Business Insurance

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In Brief

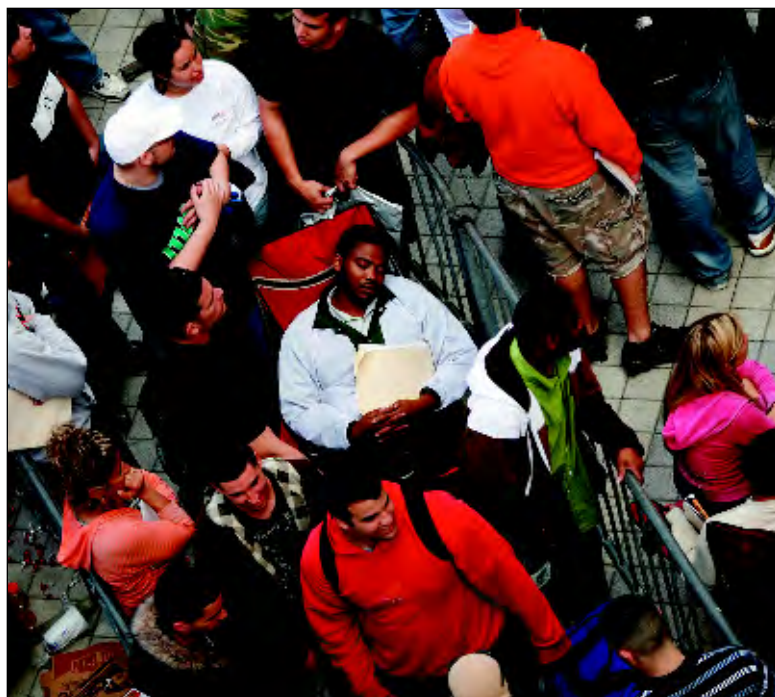
Senate panel to vote on health reform bill

Bolstered by a favorable report from congressional budget analysts, health care reform legislation drafted by members of a Senate committee is scheduled for a key vote Tuesday. If the Finance Committee approves the measure, as is expected, the measure will be melded with a somewhat different bill cleared earlier by the Health, Education, Labor and Pensions Committee. The compromise bill then will be considered by the full Senate. The Finance Committee action comes in the wake of a report by the Congressional Budget Office that found that the panel's bill, if passed, would cost \$829 billion and reduce the federal budget deficit by about \$81 billion over 10 years. The measure also would increase to 94%—from 83%—the percentage of eligible individuals with health insurance coverage. The legislation, among other things, would provide federal health insurance premium subsidies for the low-income uninsured, require individuals to enroll in a health insurance plan or pay penalties that eventually would reach \$750 per adult, create state insurance exchanges, and assess financial penalties on employers with more than 50 employees that don't offer affordable coverage.

ISO, AIR parent raises \$1.9B in IPO

Verisk Analytics Inc., parent company of Insurance Services Office Inc., last week said it has raised about \$1.9 billion in an initial public offering of Class A common stock. Jersey City, N.J.-based Verisk, which began trading its shares last week on

See **IN BRIEF** page 22



REUTERS

Workers wait in line to file job applications in Miami. As unemployment has soared, many laid-off workers have been able to keep health care cover thanks to a federal COBRA premium subsidy. The subsidy is due to expire Dec. 31.

COBRA assistance may be extended

*President, Congress
weighing options
on premium subsidy*

By **JERRY GEISEL**

WASHINGTON—Employers should brace for an extension of the COBRA health care premium subsidy, which has led to a surge of laid-off employees keeping employer-provided coverage.

Last week, White House Press Secretary Robert Gibbs said President Obama is looking into whether the subsidy, embedded in economic stimulus legislation that the president signed into law in February, should be extended.

"There are a number of ideas that have been implemented that are coming to a legislative end," including the COBRA premium subsidy, which the administration is analyzing, Mr. Gibbs said.

In addition, Washington sources say, the House Democratic leadership is considering extending the COBRA subsidy.

Under the American Recovery and Reinvestment Act of 2009, the federal government pays 65% of COBRA premiums for up to nine months for workers involuntarily terminated through the end of this year. The subsidy is not available in other COBRA entitlement situations, such as voluntary

See **COBRA** page 20

Broker group launching online placement system

*CIAB, LexisNexis
team up to develop
insurance exchange*

By **SALLY ROBERTS**

WASHINGTON—After years of discussion and numerous failed attempts, backers say a new online tool being introduced today promises to make the insurance procurement process a lot more efficient and a lot less repetitive for brokers and insurers.

The Council of Insurance Agents & Brokers and global technology and information provider LexisNexis will unveil plans to launch a Web-based insurance exchange, an online marketplace open to all industry participants to transact business.

The goal of the exchange, which is owned by LexisNexis and supported by the CIAB, is to improve the efficiency and transparency of the broker-based insurance distribution system while enabling insurers to continue to differentiate their products.

Via the exchange, for which a for-

mal name has not yet been chosen, intermediaries will be able to submit a proposal for coverage to any of the participating insurers or wholesalers and collaborate with them on the underwriting, pricing and ultimate insurance placement.

Currently, agents and brokers can interface with each insurance partner's proprietary computer system, and manually review and enter policy information into the respective systems—a repetitive process that generates a high percentage of errors, observers say.

In addition to increasing efficiency, the exchange also will aggregate data flowing through it to track marketplace trends including insurance pricing, individual insurer appetites, and new coverage introductions, in real time.

Such information will help guide agents and brokers in their risk-placement process, ensuring that buyers receive the best coverage available, exchange advocates say.

While the core of the exchange is for industry participants including agents, brokers, wholesalers, managing general agents, insurers,

See **EXCHANGE** page 19



Right culture, benefits help set best firms apart

By **RODD ZOLKOS**

After months of evaluation, *Business Insurance* is proud to reveal the 33 companies recognized in our first Best Places to Work in Insurance program.

Best Places to Work in Insurance was a joint effort of *Business Insurance* and the Harrisburg, Pa.-based Best Companies Group, and was open to all publicly or privately held insurers, agents and brokers with at least 25 employees working in the United States and serving the commercial lines market.

The 33 companies identified alphabetically inside this issue are to be celebrated as an elite group of employers that have created high-

quality workplaces that encourage employees to thrive in a work environment they can love.

Best Companies Group, an

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Business Insurance. 2009
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AON RISK SERVICES

On the Web

BI VIDEO

Crerar discusses CIAB, leadership forum

Business Insurance debuts the Insurance Broker Insights video series with "The Council of Insurance Agents & Brokers," in which CIAB President Ken A. Crerar talks about the goals of the association as well as the 2009 Insurance Leadership Forum in Colorado. Go to www.BusinessInsurance.com/video.

BI PHOTO GALLERIES

Slideshows focus on industry events



Business Insurance's photo galleries highlight industry events, including last

week's Federation of Risk Management Assns. Forum in Prague, Czech Republic. Go to www.BusinessInsurance.com/section/photos.

BI BLOGS

Read the D.C. Benefits & Risks blog

Combining 50 years of Washington, D.C., reporting experience, *Business Insurance* Editor-at-Large Jerry Geisel and Senior Editor Mark A. Hofmann blog about what's happening inside the Beltway for benefits and risk managers. Go to www.BusinessInsurance.com/section/blogs.

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Regulatory reform proposal divides insurers

Draft bill would give federal office rights to overrule states

By MARK A. HOFMANN

WASHINGTON—The question of how much power should be vested in a proposed federal insurance overseer continues to divide the insurance industry as Congress considers a bill to create a Federal Insurance Office.

The depths of the division were evident last week as the House Financial Services Committee held its first hearing on the proposed Federal Insurance Office Act of 2009.

A draft version of the bill was unveiled a few days before the hear-



AP PHOTO

Rep. Paul Kanjorski, D-Pa., has introduced a bill that would create a Federal Insurance Office.

ing by Rep. Paul Kanjorski, D-Pa., chairman of the committee's Subcommittee on Capital Markets,

Insurance and Government Sponsored Enterprises. The bill would establish the Federal Insurance Office within the Treasury Department. The office could pre-empt state regulators if they discriminated against a non-U.S. insurer subject to an international insurance agreement, or it could pre-empt state regulation if it is inconsistent with an international insurance agreement on prudential insurance matters.

The office also would have broad data-gathering authority, coordinate federal efforts, and establish federal policy on prudential aspects of international insurance matters, according to the draft.

"The credit meltdown highlighted the lack of expertise within the federal government regarding the insurance industry, especially during the collapse of American Inter-

national Group and last year's turmoil in the bond insurance markets," Rep. Kanjorski said during last week's hearing. "My bill would rectify these shortcomings and promote stability in our insurance markets."

Rep. Kanjorski has offered legislation previously that would set up an Office of Insurance Information within Treasury, but that office would have lacked pre-emptory power over state regulators and focused instead on advising the federal government on insurance matters. The new bill, which is a substitute for the previous version, reflects a July Obama administration proposal to establish a more powerful Office of National Insurance within Treasury (*BI*, July 27).

See **REFORM** page 21

Workers' misuse of Web may create liabilities

Experts warn firms to guard against pornography access

By JUDY GREENWALD

As concerns grow about the prevalence of child pornography on the Internet, some observers warn employers can be held liable for employees who view this material using company computers.

Given the ready availability of child pornography on the Internet, employers' liability exposures are growing, the observers say.

"It's a far-reaching issue" that behooves employers "to undertake even more vigilance than they have been advised to do so in the past," said Bernard E. Jacques, a partner with law firm Pepe & Hazard L.L.P. in Hartford, Conn. "Fortunately, very few employees use the employer's equipment to access illegal sites. But when they do, the employer faces substantial liability."

Sherrie Travis, of law firm Sherrie Travis & Associates L.L.C. in Chicago, said the potential for lawsuits on this issue is relatively small, but just one "can mean millions of dollars" in liability damages, so "it's something you have to pay attention to."

According to the U.S. Department of Justice, child pornography trafficking was almost eradicated by the mid-1980s, but then the Internet changed things dramatically. "The technological ease, lack of expense, and anonymity in obtaining and distributing child pornography has

resulted in an explosion in the availability, accessibility and volume of child pornography," according to the Justice Department.

It is likely that many individuals who view child pornography do so at work "because that's where they are all day," said Todd J. Shill, an attorney with Rhoads & Sinon L.L.P. in Harrisburg, Pa.

Employers can be held liable for negligent supervision or retention of such workers in addition to failure to act if they discover an individual has been viewing pornography and do nothing, say observers.

In addition, such material can provide plaintiffs attorneys with powerful evidence in hostile work environment suits.

This is "such a dramatic and emotional issue, a judge as well as a jury are much more likely to search to find a remedy and for someone to blame," Ms. Travis said. Because "the situation...tugs at everyone's heart strings, I think the employer who provides the equipment used to do this kind of thing can be swept up in that kind of emotionalism."

It is illegal to download child pornography from a Web site under federal law, which calls for a mandatory minimum prison term of five years for receipt, possession or distribution of child pornography. Producing or selling child pornography have harsher prison sentences.

Gina M. Smith, a partner with Ballard Spahr L.L.P. in Philadelphia, noted that, according to the National Conference of State Legis-

This is 'such a dramatic and emotional issue, a judge as well as a jury are much more likely to search to find a remedy and for someone to blame.'

Sherrie Travis, Sherrie Travis & Associates L.L.C.

Health risk assessments face bias hurdle

Strict limits imposed on genetic questions

By JOANNE WOJCIC

WASHINGTON—Employers may have to scramble to comply with Internal Revenue Service rules implementing a genetic nondiscrimination law.

With many companies beginning their fall open enrollment for their health care plans, employers will have to make sure questions on family medical history are removed from any health risk assessments for which they reward employees to complete.

That is required under the IRS rules issued recently to implement sections of the Genetic Information Nondiscrimination Act of 2008, which took effect May 21, 2008.

Under the rules, employers are prohibited from collecting genetic information—defined as family medical history—in health risk assessments if that information will be used for "underwriting" purposes, which includes offering employees discounts on their monthly premium contributions or lowering deductibles for completing an HRA.

However, employer-sponsored group health plans still may collect such information after enrollment has closed, while providing medical treatment or in determining claims payment (see box, page 18).

Employers could be fined at least \$2,500 for failure to comply with GINA regulations, according to the rules. The maximum penalty for unintentional violations is capped at 10% of the

See **GINA** page 18

See **LIABILITY** page 10

Solvency II to drive up costs, reduce competition: Panel

Improved security will carry a price for buyers, say experts

By MICHAEL BRADFORD

PRAGUE, Czech Republic—Solvency II will provide insurance buyers with greater assurance that their claims will be paid, but such security will not come cheaply and likely will create a marketplace with fewer players, warned a panel of insurers and brokers.

Solvency II will lead to greater transparency in insurance transactions and improved risk capital among insurers, said Axel Theis, chief executive officer of Allianz Global Corporate & Specialty, a unit of Munich, Germany-based Allianz

S.E. "But you don't get that for free."

Speaking during a panel session last week at the Federation of European Risk Management Assns.' Risk Management Forum 2009 in Prague, Czech Republic, Mr. Theis said the proposed risk-based capital framework scheduled for implementation in 2012 is expected to cause insurers to add capital and, in some cases, consolidate. Such activity is going to lead to higher insurance prices for policyholders, he added.

"Obviously, we all want great regulation," said Greg Case, president and chief executive officer of Aon Corp. But, he said, "the direct implication, if you apply Solvency II in its current form, is a narrower set of solutions that are going to be more expensive with fewer players. And we're worried about that."

Solvency II would require insur-

FERMA: Coverage of the Risk Management Forum 2009 in Prague, Czech Republic, CONTINUES ON PAGE 12.



ers to hold capital roughly equal to that required of a AA- rating, said Daniel S. Glaser, chairman and CEO

of Marsh Inc. "There are not a lot of insurers at AA-," he pointed out. He agreed with Mr. Theis that insurers

will consolidate as a way to meet the strict capital requirements.

For some buyers, the stringent requirements may mean unnecessary rate hikes, said Mr. Glaser, because Solvency II will call for more capital than is actually needed. "Do you really need AA- capital to write motor risks?" he asked.

Also on the panel were John Keogh, CEO of ACE Overseas General, a unit of Zurich, Switzerland-based ACE Ltd.; Victor Peignet, CEO of property/casualty business at SCOR S.E. in Paris; and Mario Vitale, CEO of the global corporate division of Switzerland's Zurich Financial Services Group. Herbert Fromme, a correspondent with Financial Times Deutschland in Cologne, Germany, and Adrian Ladbury, international editor of *Business Insurance*, moderated the discussion.



Buildings in central Japan were battered by Typhoon Melor last week. Insured losses were blunted by good quality construction of many buildings in the region, according to catastrophe modeler AIR Worldwide.

Japanese storm loss could top \$1 billion

By MICHAEL BRADFORD

NAGOYA, Japan—Insured damage from Typhoon Melor, which last week left at least five dead in central Japan and injured more than 100, is expected to total \$850 million to \$1.5 billion, catastrophe modeler AIR Worldwide Corp. estimated.

The typhoon came ashore in central Japan's Aichi prefecture early Thursday as a Category 1 storm with winds of about 74 mph, according to the Joint Typhoon Warning Center. Up to 12 inches of rain in some areas cut off electricity and blew off roof tiles, Boston-based AIR said in a statement.

AIR said its insured damage estimate reflects onshore losses to commercial and residential

property, and to building contents.

Melor's winds, which weakened before reaching shore, were blunted somewhat by good residential and commercial construction, AIR said.

"In the regions most affected by Typhoon Melor, wood frame homes dominate residential construction," Peter Sousounis, principal scientist at AIR, said in a statement. Many of those homes are roofed with heavy tiles that help prevent wind damage and are expected to have little to no damage, he said.

Commercial properties in the region are primarily reinforced concrete or steel construction, and should have only minor damage to roofs and siding, with "minor to moderate damage to decorative elements and signage," said Mr. Sousounis.

\$850 MILLION to \$1.5 BILLION

Insured damage from Typhoon Melor as estimated by catastrophe modeler AIR Worldwide Corp.

P/C rates stay soft in third quarter despite difficult times for insurers

Risk manager survey shows most lines flat or declining

By ZACK PHILLIPS

Property/casualty rates were either flat or lower in all major market sectors during third-quarter renewals, according to a survey of insurance buyers.

The RIMS Benchmark Survey, which is administered by Advisen Ltd. on behalf of the New York-based Risk & Insurance Management Society Inc., tracks and analyzes changes in insurance policy renewal prices reported by North American risk managers.

3.7%

GENERAL LIABILITY PREMIUMS fell 3.7% and workers compensation premiums fell 4.5% on average compared with third-quarter 2008, the survey found.

According to the survey, property coverage renewing in the third quarter saw almost no change in average premiums compared with the same quarter in 2008. Properties in areas exposed to natural catastrophes had seen some upward pressure on premiums in recent years, but that pressure has mostly dissipated after a relatively benign 2009 hurricane season, said Advisen Editor in Chief David Bradford.

General liability premiums fell 3.7% and workers compensation premiums fell 4.5% on average compared with third-quarter 2008, the survey found. That decline was due in part to depressed sales and payrolls, which are used to calculate premiums for those lines of business, according to the survey.

The survey covers mostly large companies, which often are rated on bases other than sales or payroll statistics alone, Mr. Bradford said. The effect of declining sales and payrolls on general liability and workers compensation premiums

See **SURVEY** page 21

Bermuda revamps insurance rules

New regulations aim to attract alternative insurance structures

By COLLEEN MCCARTHY

HAMILTON, Bermuda—Bermuda has introduced a new regulatory framework for catastrophe bonds and other specialized insurance instruments in an effort to attract more business to the island.

The Bermuda Monetary Authority's guidance—which became effective last week—applies to cat bonds, reinsurance sidecars, industry loss warranties and other special-purpose vehicles offered by insurers seeking to be licensed in the domicile.

"We have set a very high standard for disclosure and transparency and we believe the framework will create a clear picture of the risks



New regulations in Bermuda will apply to catastrophe bonds, sidecars, industry loss warranties and other specialized insurance instruments.

these instruments contain," said Matthew Elderfield, chief executive officer of the Bermuda Monetary Authority, the island's main regulatory body.

In addition, Mr. Elderfield said the regulations will position Bermuda to win more business as capital markets seek to enter the insurance sector.

Special-purpose insurers were introduced as a new class of insurer under Bermuda's Insurance Amendment Act of 2008. The legislation reorganized Bermuda's insurers and reinsurers in an effort to categorize them more appropriately based on their risk profiles.

Prior to last year, sidecars, which usually operate as separately capitalized affiliates of existing insurers and reinsurers that cede business to the sidecars, were regulated as Class 3 insurers within Bermuda's four-class regulatory framework. As Class 3 insurers, they were subject to the same regulations as small insurance companies—a designation some observers said was "too severe" given the instruments are fully collateralized with a remote chance of bankruptcy. Meanwhile, cat bonds and other insurance-linked struc-

See **BERMUDA** page 22

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Commentary

Regulators must focus on big picture issues

Congress is pushing ahead with financial services regulatory reform. Yet a year after the financial meltdown that thrust the country into the deepest recession in decades, the question of what sort of institutions present systemic risk remains without a definitive answer.

That's because there still isn't a real definition of systemic risk. There are at least two possibilities. One is that an institution presents a systemic risk if it's deemed too big to fail. Another definition, which the Property Casualty Insurers Assn. of America has urged Congress to adopt, is that an institution presents a systemic risk if it is "too interconnected to fail."

As a free-market advocate and an opponent of economic populism, I'm very leery of the federal government getting deeply involved in the economy. I find some of the moves made in that direction of increased government economic intervention during the past year—as well as the ever-expanding deficit they've spawned—frightening.

But depending how the debate over systemic risk regulation ultimately plays out, I think there could be a very clear and decisive role for the federal government to play.

If systemic risk is a matter of too big to fail, the management of any institution that falls into that category could wind up facing a moral hazard. That's because that definition is an implicit guarantee that Uncle Sam will not let you fail. The government may come in and limit your salary and might force out your chairman, but it will not let you go under.

That's a temptation to take a risk or two you might not have otherwise taken. If those bets turned out to be on the order of certain structured securities that were so popular little more than a year ago, you might be the cause of the taxpayers being asked for more money to save you. As a taxpayer, I would not like to be asked to do this. In fact, I would be very unhappy and would be even more inclined to throw the bums out in the next election than I normally am, which is a pretty strong inclination under all circumstances, given my nature.

Despite all the talk about how the situation is—or at least was until quite recently—a possible harbinger of a new Great Depression, I think this is a good time to look more toward Theodore Roosevelt for inspiration than his cousin Franklin D.



MARK A. HOFMANN

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Teddy was, of course, the great trust-buster. In his day, the trusts represented a threat to the United States because of the vast economic power concentrated in a few hands. Remember, trust-busting was a Republican idea little more than a century ago. It was not the idea of a bunch of wild-eyed socialists; it was the idea of the pro-business party.

This time around, the threat isn't that the too-big-to-fail insti-

The government may come in and limit your salary and might force out your chairman, but it will not let you go under.

tutions wield too much economic power on their own; it's that they threaten to inflict a great deal of economic damage because of their potential to mismanage the economic power they've got. We've seen how that works—or doesn't work—during the past couple of years and we're stuck with the bill.

We shouldn't have to be asked to pay any more. Rather than micromanaging private salaries or pushing wealth-transfer schemes such as cash for clunkers, federal regulators ought to be zeroing in on making sure the kinds of mismanagement that got us into this mess don't happen again. Following a regulatory approach that views things in terms of too big to fail will come up short.

If that means causing some financially precarious economic giants to divest themselves of certain units—or at least not buy more—to get them down to a manageable size, so be it. If it's too big to fail, it's too big, period.



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Business Insurance OPINIONS

Federal compromise would benefit market

YOU CAN'T PLEASE EVERYONE all the time.

The chairman of the House Financial Services Committee's Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises—Rep. Paul Kanjorski, D-Pa.—certainly didn't manage to please everyone with his draft legislation to establish a Federal Insurance Office. As we report on page 3, some in the property/casualty insurance industry said the proposal goes too far toward preempting state insurance regulation. Others noted that it stopped short of setting up a system of optional federal charters for insurers and producers.

While we favor greater federal preemption of state insurance regulation including the OFC, we also think Rep. Kanjorski has hit the right balance at the right time.

The OFC isn't going to happen anytime soon. But, the United States needs a single, authoritative voice in dealing with international insurance matters. The Federal Insurance Office Act proposed by Rep. Kanjorski would give the Treasury Department that voice. For that voice to wield the authority that it must, the federal regulator must have the power to pre-empt state regulators when their actions interfere with international agreements.

The Kanjorski bill strikes a reasonable middle-ground position. It may not please anyone entirely, but it is the best approach available and could serve as a building block for more comprehensive regulatory reform in the future.

The United States needs a single, authoritative voice in dealing with international insurance matters.

Congress should renew COBRA subsidy law

SHOULD CONGRESS RENEW the COBRA premium subsidy provisions included in the economic stimulus legislation that Congress approved in February?

When the measure passed, we applauded Congress for providing quick and appropriate help to people who have lost their jobs and couldn't afford to pay COBRA premiums.

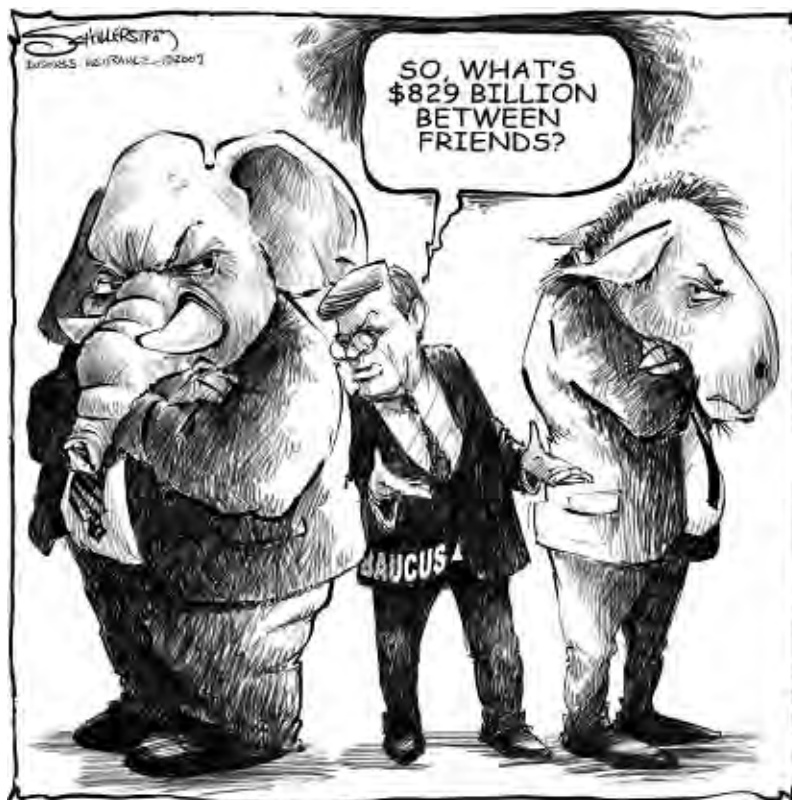
The subsidy has enabled many laid-off employees to retain coverage. Hewitt Associates Inc. found that the percentage of laid-off employees opting for COBRA doubled since the subsidy took effect.

Unless Congress acts, the subsidy will expire on Dec. 31 and workers who lose their jobs after that will not receive federal financial support for the premium. Many will not be able to afford to pay the premiums and will join the nation's uninsured.

As we report on page 1, legislators and the Obama administration are considering whether to extend the subsidy.

Given the high unemployment rate and the difficulty laid-off employees have in finding new jobs—and, with that, new employment-based coverage—a short extension would be an appropriate move. It is better, we think, that these individuals retain coverage that allows them to get the care they need rather than use public programs or emergency rooms for treatment of conditions that could be treated in less expensive settings.

That said, we are mindful that employers, at a time many can least afford to do so, are footing part of the bill. That's because COBRA beneficiaries typically are above-average users of health care services, and their COBRA premiums rarely cover what employers pay out in claims. As a result, if the subsidy law is extended, it should include a financial break for employers for the losses they are incurring while providing COBRA coverage.



WRITE

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Strategies to avoid 'late notice' battles

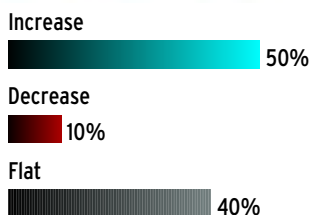
What constitutes "late notice" or "timely notice" to an insurer when it comes to a liability claim? It depends entirely on the state where the claim takes place, says Stephanie Platzman-Diamant, a Newark, N.J.-based associate in the insurance coverage group of McCarter & English L.L.P. To avoid battles with insurers, she recommends businesses set clear guidelines to report claims to insurers and make certain that third-party administrators comply with the company's guidelines.

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THIS WEEK'S RESULTS

How will property/casualty rates change at Jan. 1, 2010, renewals?



NEXT WEEK'S QUESTION

Should Congress renew the COBRA subsidy beyond the Dec. 31 expiration date?

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CONTINUED FROM PAGE 1

independent workplace excellence research firm that manages 35 other regional and industry programs in the United States and Canada, managed the registration process, conducted the surveys, evaluated the data, and ultimately selected the firms that made the cut.

The assessment was a two-part process. Part 1—responsible for 75% of a company's score—involved a confidential 76-question employee engagement and satisfaction survey, used to evaluate employees' workplace experience and the company culture. The second part of the assessment—responsible for 25% of a company's score—was an employer questionnaire, which collected information about each company's employee benefit programs, employment policies, practices and other general information.

Using the two sets of data, BCG experts conducted an in-depth analysis of the strengths and opportunities at each company.

To make the Best Places to Work in Insurance list, each company had to demonstrate

'From a data standpoint, this was a stronger list than average. They're doing things right.'

Peter B. Burke, Best Companies Group

"a minimum standard of excellence," said Peter B. Burke, BCG's president. "We do have our eyes set on an overall level of satisfaction that we want to see," he said. "We're not ranking the best of the worst."

Compared with companies recognized in BCG's studies of other industries, the insurance industry list ranks high, according to BCG's president. "From a data standpoint, this was a stronger list than average," Mr. Burke said. "They're doing things right."

BCG's work also involves comparative analysis of the companies on the list.

In a special report in the Oct. 19 issue of *Business Insurance*, we'll reveal the ranking of the 33 companies and take a closer look at the companies honored. *BI* also will recognize the companies and celebrate their achievement at an awards luncheon this week in New York.

For information about the event, please contact Becky Briggs, event manager, at rbriggs@businessinsurance.com.

And it's not too early to start thinking about the 2010 Best Places to Work in Insurance program. To sign up to be notified when information is available about the program, visit www.bestplacetoworkins.com.

BI names new editorial staffer

Mike Tsikoudakis has joined the editorial department of *Business Insurance* as editorial assistant in the Chicago office. He is responsible for administration of daily editorial operations, special projects and *BI's* Comings & Goings column.

Most recently, Mr. Tsikoudakis was advertising traffic coordinator for the magazine in



Mr. Tsikoudakis

the Chicago office.

Mr. Tsikoudakis received his Bachelor of Arts degree in English from the University of Denver, and completed his Master of Arts degree in writing from DePaul University in Chicago.

Mr. Tsikoudakis can be reached by phone 312-649-5398 or e-mail at mtsikoudakis@businessinsurance.com.

Liability: Web misuse creates problems

CONTINUED FROM PAGE 3

latures, seven states require information technology workers to report the discovery of child pornography to law enforcement officials. Failure to report such information could result in a fine or jail time. Those states are Arkansas, Illinois, Missouri, North Carolina, Oklahoma, South Carolina and South Dakota.

Philip L. Gordon, an attorney shareholder and chair of the privacy and data protection practice group with Littler Mendelson P.C. in Denver, said employees who uncover such pornography during an inves-

tigation or decide to destroy it "because they're horrified by it and they think it's disgusting" could face criminal charges "for having reviewed or possessed child porn, or for obstruction of justice." The best course of action is to call law enforcement as soon as possible, he said.

He said companies may be reluctant to report the discovery of child porn if the suspect is a high-ranking executive to avoid embarrassment, but "the company itself is facing potential exposure to criminal prosecution for not reporting someone who's engaging in child pornography using the company's electronic

resources," Mr. Gordon said.

Many observers say a significant case in this area is *Jane Doe vs. XYZ Corp.* In that 2005 decision, the Appellate Division of New Jersey Superior Court held that an employer may have been negligent for failing to act when it learned an employee was downloading pornography. The suit was filed by the ex-wife of an employee who allegedly sent pornographic pictures of his stepdaughter to a child porn site. According to reports, the case was settled for an undisclosed amount. Attorneys could not be reached for comment.

Unrelated to the civil suit brought by the ex-wife, the man was arrested in connection with uploading pictures of his stepdaughter.

"The reasoning of the New Jersey court suggests that employers in all states can be held liable for an employee's viewing child pornography," said Mr. Jacques. The court based its decision on the common law of negligence, which "requires all of us to take reasonable steps to prevent harm to others."

Others disagree about the case's significance.

"A lot of people think that the case is going to be interpreted very, very narrowly," said Robert J. Aalberts, a professor of legal studies at the University of Nevada, Las Vegas. "But it does indicate you've got to be careful and always exercise prudence."

Ann E. Zerbe, a shareholder with York, Pa.-based CGA Law Firm, said she expects more claims in this area in the future "just because the technology is constantly evolving and expanding."

A company policy covering this is important, say observers. The policy should "flat-out ban any illegal use as well as inappropriate use" of the computer, said Mr. Jacques.

Ms. Smith said the policy should establish that there is "no reasonable expectation of privacy when you're using a company computer" and spell out disciplinary actions for violating the policy.

"The courts are loath to hold employers responsible" if they have made it clear to employees what is considered inappropriate behavior, such as through an annual seminar, said Jonathan D. Bick, of counsel with law firm Brach Eichler L.L.C. in Roseland, N.J.

Observers say software is available to prevent access to these sites, including programs that recognize keywords or those that measure the amount of skin in photographs.

Just be sure that any policy that is developed is followed, said William P. Perkins, a partner with law firm Seyfarth Shaw L.L.P. in New York. "The best evidence for a plaintiff attorney is for a company to have a policy that's not followed."

An Internet usage policy that is not followed is almost as bad as having no policy at all, he said.

Also, "be very careful to monitor your employees in general," Mr. Aalberts said. "You don't have to be crazy about it, but just be aware that this sort of thing can go on in the workplace" and look into it "if there are any hints it is going on."

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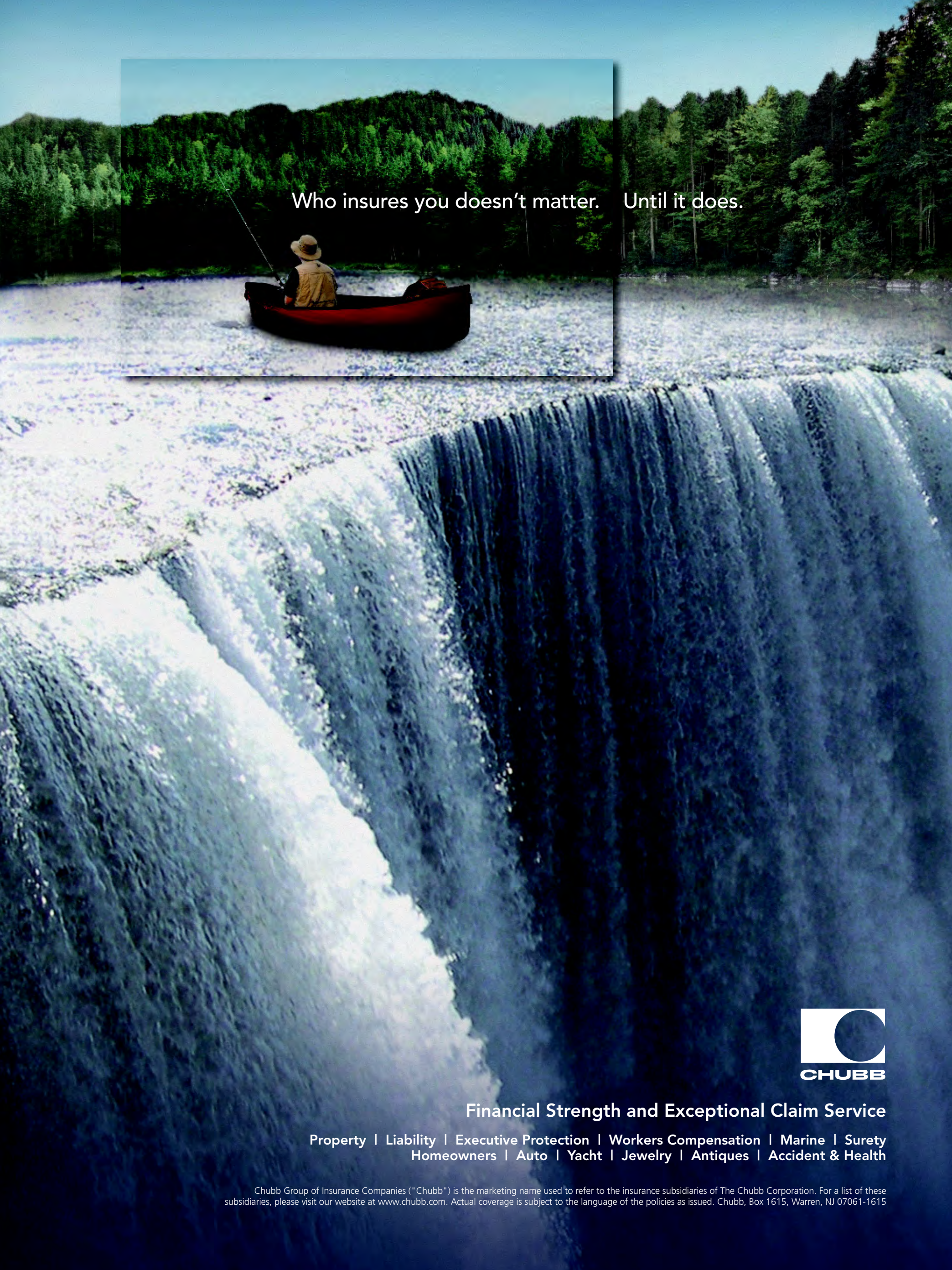
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European risk managers consider impact of Solvency II

Capital framework seen as likely to alter dealings with insurers

By MICHAEL BRADFORD

PRAGUE, Czech Republic—The eventual impact of Solvency II on risk managers and the renewed interest in broker commissions took center stage at the Federation of European Risk Management Assns.' Risk Management Forum 2009.

"We are really very concerned about what impact Solvency II will have on the market, especially on large industrial insureds," said Peter den Dekker, FERMA's president, in opening the organization's 2009 forum, held last week in Prague, Czech Republic.

Solvency II, a risk-based capital framework that will, among other things, require insurers to calculate their capital needs according to complex models, is scheduled for implementation in 2012.

In the lead-up to its implementation, the impact of Solvency II has been widespread, said Mr. den Dekker. "Not just in Europe but across the world," he said, noting that many countries are working to adopt regulations considered equiv-

alent to those of Solvency II.

The potential impact is so important, he said, that the proposed framework was highlighted as a major topic at the forum.

Recent concerns in a letter by the Comité Européen des Assurances to the Committee of European Insurance and Occupational Pensions Supervisors have heightened attention to Solvency II issues among risk managers, Mr. den Dekker said. That correspondence revealed CEA's worries about the impact "not just on the insurance industry, but also on insurance buyers," he said.

The Solvency II requirement that calls for insurers to develop models for risk-based capital could not only change how capital is allocated but might also affect risk managers' relationships with their insurers, he suggested. "We wonder if the emphasis on modeling could shift underwriting decisions to a senior manager within an insurer," such as the chief risk officer or even the chief financial officer, he said. "In that case, buyers will lose the understanding of their business that they have built up with underwriters who have the knowledge and experience to shape coverage appropriately."

Mr. den Dekker said intermedi-



RICHARD COOKE

Proposed changes to the way Europe's insurers calculate their capital requirements may shift the responsibility for underwriting decisions to senior managers at insurers, said Peter den Dekker, FERMA's president.

aries can help voice buyer concerns regarding Solvency II. He called on brokers to "publicly raise your voice. You have to defend the clients' interest."

In addition, the issue of broker remuneration from underwriters has resurfaced and is causing con-

cern among risk managers, Mr. den Dekker told FERMA attendees.

"I thought by the 2007 FERMA (forum) it would be gone," he said of the topic of brokers receiving commissions that are contingent on business volume. In the United States, after one state recently

agreed to let a major broker resume accepting contingent commissions, there are discussions about large brokers once again receiving the payments, he noted.

"So it's still there," he said. "I hope in two years' time, at the next forum, broker remuneration will not be an issue. We are working with the broker associations to try and come up with a sensible solution to get this topic out of the way."

Mr. den Dekker said he would like this year's forum to "create a vision for the future, so that we become better at what we do as professionals, better at what we do as a profession, and better at communicating our vision to the global village."

FERMA is fortunate to be able to present its message this year, because it had considered not holding the meeting, Mr. den Dekker said.

"In December of last year, we were discussing the disaster scenario of, will we cancel the forum because of the financial crisis?" he said. "We really did some risk management, trying to market the event, and now we have over 1,000 registrants. That's very positive and it means that FERMA is still an important platform for networking."

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Risk managers urged to scrutinize providers

FERMA panel discusses AIG, broker pay, ratings

By RICHARD MILLER

PRAGUE, Czech Republic—A panel of risk managers discussed the troubles at American International Group Inc., buyers' need to look beyond insurer ratings, and continued questions about broker compensation, among other things, at last week's Federation of European Risk Management Assn. forum in Prague, Czech Republic.

During a plenary session at FERMA's Risk Management Forum 2009, the panelists deflected criticism that they shun lower-rated insurance companies while at the same time have stuck with AIG even as it required a massive bailout from the U.S. government.

"There is a big difference between AIG in Europe and AIG in the U.S.," said Flemming Kvorning, group risk manager of Coop Danmark A/S, Denmark's leading retailer and a board member of the Danish Risk Management Assn.

Mr. Kvorning praised the insurer, which recently rebranded under the name Chartis Europe for its European operations, for being "very client-friendly and very client-focused."

"We prefer, to be honest, to work with AIG Europe, because AIG Europe is protected within the company," said Marc Mathijsen, head of corporate insurable risk management at ING Groep N.V. and president of Belgium's risk management association, Belrim. "It is easier to isolate AIG Europe and to know exactly its financial strength."

David Anderson, head of risk solutions at the United Kingdom's BP P.L.C., commented that AIG is "probably more secure" than it has been in the past because of the U.S. government's takeover.

"In terms of (the) question of would we rather deal with a triple B or an A-rated company owned by the U.S. government, I think I know which one I'd rather deal with," he said.

During the session, the panel of seven prominent risk managers was questioned on a range of hot topics, including the failures of risk management to detect the financial crisis, the continued debate on broker contingent commissions, and their past reliance on credit ratings.

Stefan Sigulla, insurance manager at Siemens Financial Services GmbH, and chairman of the Deutscher Versicherungs-Schutzverband e.V., or DVS, said risk and insurance managers now must consider the counterparty risks of their insurance carriers more than ever.

Mr. Sigulla said credit ratings were previously seen as being "like a guarantee" but now are considered more as a "journalist's statement" on the financial strength of insur-

ers. Nevertheless, if a risk manager chooses a lower-rated insurer, they will have "serious problems" should that insurance company not be around to pay a claim, he said.

Peter den Dekker, president of FERMA and corporate insurance risk manager at Amsterdam, Netherlands-based Stork B.V., conceded that buyers had relied too much in the past on ratings. "It has been used for years to cover our ass," he said. "We should have looked beyond the ratings....Some of us did, but most of us didn't, and we are very surprised about what happened with AIG, so that is a lesson to learn for us as well."

On the topic of broker remuneration, the panel was split on whether a ban on contingent commissions is needed or not, despite the fact that the majority of the delegates voted in favor of a ban.

Mr. den Dekker said he didn't believe a call for an outright ban was the right position as FERMA



RICHARD COOKE

Stefan Sigulla of Siemens Financial Services said risk managers should focus on counterparty risks.

enters into discussion with the European broker association, BIPAR, on the issue.

Mr. Sigulla, a FERMA vp, said transparency around all commissions is the vital component.

"What I am saying is, it is not important to say it is allowed or not allowed; it is important to know what is going on, who is paying whom, and for what reason," he said. "At the end of the day, all payments are made by the insured, and therefore he has the right to know what is going on."

But tracking commissions will be too difficult, said Maurizio Micale, corporate risk management and insurance director of STMicroelectronics, in Geneva.

Brokers need to reform their business model altogether, he said. "We should move to electronic transactions, which will reduce the number of transactions in this industry," he added. "There are too many transactions."

Moderating the panel were *Business Insurance* International Editor Adrian Ladbury and Herbert Fromme, insurance correspondent for Financial Times Deutschland.

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Insurers mull safety of 'green' risks

Underwriters consider changes in risk profiles as businesses adapt

By **RICHARD MILLER**

PRAGUE, Czech Republic—Insurers are examining how to reward companies for implementing sustainable business practices that take into account their impact on the environment and society.

But the correlation between sustainable business practices and a reduction in insurance premiums is a "work in progress," said Tony Cabot, the Zurich, Switzerland-based director of global programs, product development manager at XL Capital Ltd. unit XL Insurance.

Speaking at a workshop on sustainable business development at last week's Federation of European Risk Management Assn.'s Risk Management Forum 2009 in Prague, Czech Republic, Mr. Cabot said that while there are some areas where so-called sustainable underwriting applies, other areas are less clear.

For instance, certain building materials may be more sustainable from an environmental standpoint, but they may not be as able to withstand windstorms or floods, Mr. Cabot said.

"So this is a big area of debate," he said, noting that other industries, such as construction, must also consider the issue.

Later this month, the United Nations Environment Program Finance Initiative will release a final report on the global state of sustainable insurance, in which many of these issues and concerns will be addressed, said Mr. Cabot. XL is part of the program's insurance working

group, which helped develop the upcoming report and an underwriter survey on sustainability.

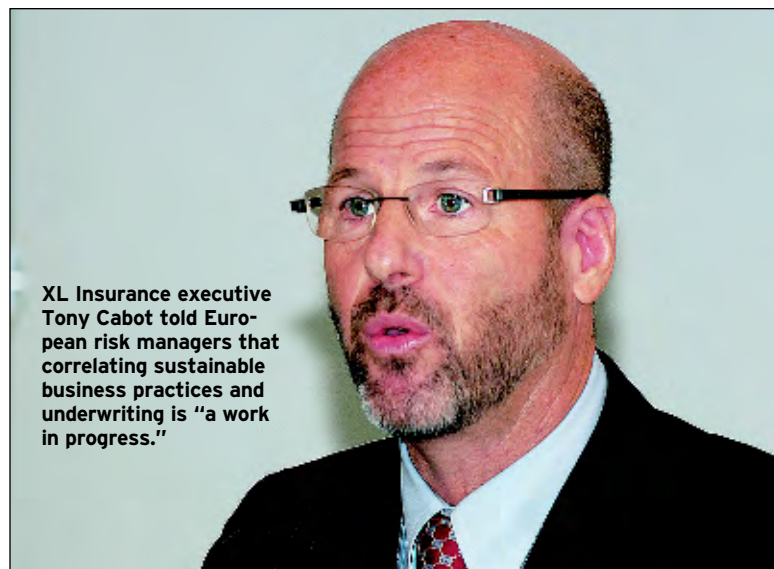
The report will note that underwriters believe there are "great opportunities" for green insurance products—a product line that "is not being picked up as well as it should be by insurance companies," he said.

Panelist Petr Holecek, risk and facility manager at Plzen, Czech Republic-based Plzensky Prazdoj—part of global brewer SABMiller P.L.C. in South Africa—discussed the numerous steps the company has taken to adopt more sustainable

business practices.

The company is addressing social and environmental issues such as discouraging irresponsible drinking, reducing its water consumption and carbon footprint, working toward zero-waste operations and making sure its suppliers reflect the same values.

Panel moderator Gert Cruywagen, director of risk at Tsogo Sun Group, a South African hotel and gaming company, noted that there is growing attention to the issue of so-called water footprint, or the amount of water that a company's operations consume.



XL Insurance executive Tony Cabot told European risk managers that correlating sustainable business practices and underwriting is "a work in progress."

RICHARD COOKE

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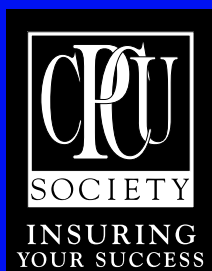
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FERMA draws 1,100 to Czech Republic

PRAGUE, Czech Republic—The Federation of European Risk Management Assns.' Risk Management Forum 2009, which was held Oct. 4-7 in Prague, Czech Republic, drew about 1,100 attendees.

The next FERMA Forum, which is scheduled for 2011, will be held in Stockholm, Sweden.



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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
IN RE PETITION OF ROLF ABJORNSSON,
AS OFFICIAL RECEIVER OF
ATERFORSKRING AB LUAF
DEBTOR IN A FOREIGN PROCEEDING
CASE NO. 03-10945 (PCB)

NOTICE IS HEREBY GIVEN THAT ON OCTOBER 1, 2009, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. § 504, ORIGINALLY ENTERED IN THIS CASE ON FEBRUARY 19, 2008. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED FOR APRIL 22, 2010 AT 11:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE PRUDENCE CARTER BEATTY, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE PRUDENCE CARTER BEATTY AND SERVED ON COUNSEL FOR THE OFFICIAL RECEIVER LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE OFFICIAL RECEIVER.

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE OFFICIAL RECEIVER
30 ROCKEFELLER PLAZA
NEW YORK, NEW YORK 10112
(212) 408-5100
ATTN: HOWARD SEIFF, ESQ.
FRANCISCO VAZQUEZ, ESQ.

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
IN RE PETITION OF DAN YORAM SCHWARZMAN,
AS ADMINISTRATOR OF
**FOLKSAM INTERNATIONAL INSURANCE
COMPANY (UK) LIMITED**
DEBTOR IN A FOREIGN PROCEEDING
CASE NO. 02-14070 (PCB)

NOTICE IS HEREBY GIVEN THAT ON OCTOBER 1, 2009, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. § 504, ORIGINALLY ENTERED IN THIS CASE ON SEPTEMBER 9, 2002. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED FOR APRIL 22, 2010 AT 11:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE PRUDENCE CARTER BEATTY, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE PRUDENCE CARTER BEATTY AND SERVED ON COUNSEL FOR THE ADMINISTRATOR LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE ADMINISTRATOR.

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LEGAL NOTICE

NOTICE OF IMPLEMENTATION OF
SOLVENT SCHEME OF ARRANGEMENT
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
Claim no. 1773 of 2007
IN THE MATTER OF
**GREAT LAKES REINSURANCE
(UK) PLC**
and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that in the matter of Great Lakes Reinsurance (UK) PLC (the "Company") and the Scheme of Arrangement for the Company, which became effective on 1 July 2007 has been implemented in accordance with its terms and accordingly, it has been terminated on 1 October 2009. No further payments shall be made to the Scheme Creditors by the Company in respect of the Scheme liabilities.

Should you have any questions or require further information regarding this Notice, please refer to the Company's website at www.greatlakesreinsurance.co.uk or contact the Company at the below details:

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**Comings
& Goings**



MATT TAYLOR

NEW JOB TITLE: Chicago-based assistant vp and senior environmental underwriter for the environmental division of New York-based Navigators Group Inc.

PREVIOUS POSITION: Chicago-based senior vp of the Midwest environmental practice for New York-based Marsh USA Inc.

GOALS FOR NEW POSITION: The Navigators environmental team is really known for being creative and crafting very cost-effective solutions, which is why I joined the group. Really, I plan to leverage my experience and reputation to help find ways to solve business problems in cost-effective ways.

INDUSTRY CHALLENGES: There is a lot of new interest in the environmental marketplace, which has created a lot of excess capacity in the markets compared with other lines. I expect it to be a soft market for the next several years. So we need to find a way to differentiate coverage and service.

FIRST JOB EXPERIENCE: My first experience was with a

company...where I was (an environmental project manager) assigned to gas stations in Michigan. I assessed them and found ways to clean them up.

ADVICE: Be underwriter-focused and make sure you understand your risk. Make sure you are writing good business.

GROWING UP: I always wanted to build sailboats. I guess you would call that a nautical engineer.

MOST PASSIONATE ABOUT: My reputation, whether it's at work or as a father and husband.

HOBBIES: I love to go sailing. I love to bike. I love outdoors and camping.

CAN'T-MISS TV SHOW: "24." It starts in January again.

E-MAIL OR PHONE, AND WHY: I am big on both. I am on the phone a lot and I e-mail a lot, but I prefer e-mail. I think in e-mail you get the opportunity to be comprehensive. You get to think about what you are trying to do. It's more efficient. Plus, in the insurance industry, it's better to have things in writing.

Comings & Goings ONLINE



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

TO SUBMIT ITEMS
Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to:

Mike Tsikoudakis
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806
mtsikoudakis@businessinsurance.com

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Safety National Casualty Corp.
Torus Insurance Holdings Ltd.

OTHER PROVIDERS:
IPS Search Inc.

Market Moves

CUNA Mutual purchases crop insurance firm

AMARILLO, Texas—CUNA Mutual Insurance Society has acquired crop insurer Producers Ag Insurance Group, the companies said.

Amarillo, Texas-based ProAg, a multiperil crop insurer serving farmers and agricultural producers nationwide, will operate as a standalone subsidiary of CUNA Mutual. CUNA Mutual, which became the lead reinsurer for ProAg in 2006, acquired a minority ownership position in the crop insurer in 2007.

Becoming sole owner of ProAg helps CUNA diversify the risks it insures and provides new revenue streams, company officials said in a statement. Multiperil crop insurance is an \$8 billion U.S. industry, the company said.

Madison, Wis.-based CUNA Mutual provides financial services to credit unions and others.

New Mercer unit targets pension plan sponsors

NEW YORK—Consultant Mercer L.L.C. said it has formed an administrative consulting business unit for pension plan sponsors struggling with regulatory and financial challenges.

The new unit aims to help plan sponsors with plan redesigns, mergers, acquisitions and divestitures. The group can provide business case analysis, measuring administrative impact, transition management, audit support, temporary staffing and other help on long- and short-term projects.

Mercer, a wholly owned subsidiary of Marsh & McLennan Cos. Inc., serves nearly 200 clients covering more than 2.5 million participants.

Willis backs cat risk center at Oxford University

OXFORD, England—Willis Group Holdings Ltd. is sponsoring the

establishment of the Center of Catastrophic Risk Financing and Public Policy at Oxford University's Smith School of Enterprise and the Environment, the broker said.

The move adds Oxford to the Willis Research Network, a collaboration between the broker and 20 academic institutions in atmospheric science, seismology and other disciplines.

The network aims to conduct research into catastrophic risk to be used by the industry.

The catastrophic risk center will bring together leading experts in environmental science, economics, finance, law and business to find sustainable ways for governments to share the costs of natural catastrophes via risk financing and pub-

lic policy, according to a Willis statement.

Patrick McSharry, who heads the System Analysis, Modeling and Prediction Group at Oxford's Department of Engineering Science, will head the new center. His research has covered environmental modeling and applications for financial and industrial sectors.

The Willis Research Network also will sponsor a research fellowship at the new center with the first fellow to be appointed later this month, the London-based broker said.

Global Special Risks teams with Lloyd's syndicate

HOUSTON—Excess and surplus lines broker Global Special Risks L.L.C.

has formed a strategic alliance with a Lloyd's of London syndicate, the firm announced recently.

Global Special Risks, an energy industry-focused E&S broker with offices in Houston, Dallas and New Orleans, is working with Lloyd's insurer Chaucer Syndicate 1084 to provide more efficient underwriting for mostly onshore oil and gas operators in North America, it said.

Chaucer Syndicate is the managing agency for Chaucer Holdings P.L.C., a specialist insurer writing marine, aviation, energy, property and other business.

Global Special Risks is a unit of Faber & Dumas Ltd., a third-party wholesale broker owned by London-based Willis Group Hold-

ings Ltd., and is focused on the energy industry.

With the underwriting expertise of the Chaucer Syndicate and the distribution network of Global Special Risks, the companies will be able to quote and issue policies more efficiently, the broker said in a statement.

TO SUBMIT ITEMS

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

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WHAT EMPLOYERS CAN AND CANNOT DO UNDER GINA

The following scenarios are strictly prohibited by Internal Revenue Service rules implementing the Genetic Information Nondiscrimination Act:

- Any group health plan that provides a premium reduction to employees who complete a health risk assessment prior to enrollment that includes questions about family medical history.
- Any group health plan that requests employees to complete a health risk assessment prior to enrollment that includes questions about an individual's family medical history, but does not offer a reward.
- Any group health plan in which certain individuals completing the health risk assessment become eligible for a disease management program based on their answers to questions about family medical history.
- Any group health plan that waives its annual deductible for individuals who complete a health risk assessment after enrollment that does not include any direct questions about family medical history but asks, "Is there anything else relevant to your health that you would like us to know or discuss with you?" the answers to which may divulge genetic information.

The following scenarios are permissible under the IRS rules:

- Any group health plan that requests enrollees to complete two distinct health risk assessments after and unrelated to enrollment: one that doesn't include questions about family medical history, but offers a reward; and one that includes family medical history questions, but offers no reward.
- Any group health plan that waives its annual deductible for individuals who complete a health risk assessment after enrollment that includes the question, "Is there anything else relevant to your health that you would like us to know or discuss with you?" In answering this question, you should not include any genetic information. That is, please do not include any family medical history or any information related to genetic testing, genetic services, genetic counseling or genetic diseases for which you may be at risk."
- Any group health plan that normally provides coverage for mammograms only for women 40 and older may choose to extend coverage to younger women who demonstrate they are at increased risk of getting breast cancer, such as through genetic testing or a family history of the disease.

GINA: Health risk appraisals face genetic bias hurdle

CONTINUED FROM PAGE 3

amount paid by the employer for its group health plan during the prior year or \$500,000, whichever is less. There is no cap for violations resulting from willful neglect or intentional misconduct.

These interim final rules apply to group health plans with plan years beginning on or after Dec. 7. The IRS is accepting comments on the new rules, as well as any requests for a public hearing, until Jan. 5, 2010.

Because the rules were issued recently, benefit consultants and wellness program providers said they rapidly started working with employers that have begun or are about to begin open enrollment to ensure they will be in compliance.

"We're telling employers to assess what information they're collecting and how it's being used, see what actions their HRA administrator can do—can they remove the questions at this late date?" said Rich Stover, a principal at Buck Consultants L.L.C. in Secaucus, N.J.

To ensure employer clients are in compliance, Debi Heck, wellness national practice leader at Aon Consulting in Houston, said she has "been talking with a lot of vendors who have family history questions in their HRAs, and they are quickly changing their tools so that these questions are no longer part of their HRA."

Gregg Kamas, director of health risk management at broker IMA Financial Group Inc. in Denver, said he is "encouraging our clients to revise the tools they're using or to revise the method they're using to incent people to participate" in health risk assessments.

The impact of the new IRS rules could be widespread, benefit experts say, because more employers offer financial incentives to encourage employees to complete health risk assessments, which serve as the entry point for many wellness and disease management programs.

"This is one of the fastest-growing areas in health management strategy," said Mike Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York. In PwC's 2009 Health & Well-Being Touchstone Survey of 694 employers, 64% said they offered incentives for completing health risk assessments, up from 57% last year.

Employers have stepped up the use of incentives because employees are more likely to complete an assessment if there is a reward.

"If employers don't offer an incentive, maybe 50% take the HRA. But if they do, it goes all the way to 80%," said Dr. Raymond Gavary, medical director at eCare Solutions Inc., a wellness program provider.

Moreover, the vast majority of health risk assessments include questions on family medical history because "many diseases are closely related to family medical history," said Dr. Gavary. The Milwaukee-based company uses an algorithm that combines family medical history with personal health risks to generate a health risk score.

But many wellness experts say removing the handful of questions related to family medical history usually included in a health risk assessment will not render them totally ineffective.

"We consciously did not include family medical history because there's nothing

anyone can directly do to modify that," said Mark Head, chief solutions officer at Viverae Inc., a wellness program provider based in Dallas. "And we know that we would be asking it in the supplemental questionnaire as part of the ongoing wellness program," he added.

Based on scenarios presented in the IRS rules, the latter step should be allowed, legal experts say.

"It is OK...to ask these family medical history questions after enrollment, as long as there is no reward for completing the questionnaire," said Sharon Cohen, group and health care benefits counsel at Watson Wyatt Worldwide in Arlington, Va.

In addition, "if it is being used for the provision of medical care or to pay a claim, it should be OK to collect family medical history," Ms. Cohen said.

Some legal experts say it also may be permissible for employers to collect the information as part of fall open enrollment, as long as they do not pay a financial incentive after the 2010 plan year begins.

"Under one interpretation, collecting genetic information in 2009 prior to enrollment...should still be permitted, as long as it is not used in connection with setting premiums or contributions after the law is effective," said Amy Bergner, principal in the Washington Resource Group at consultant Mercer L.L.C.

But other benefits law experts advise employers against collecting family medical history in health risk assessments with or without an incentive.

"Our advice is to be prudent," said Ed Fensholt, senior vp and director of compliance services at Kansas City, Mo.-based Lockton Benefit Group. "We're not going to advise clients that that's a good idea."

The text of the interim final rule is available at www.federalregister.gov.

Exchange: Broker trade association launches online placement system

CONTINUED FROM PAGE 1

associations and vendors, "I could see, down the road, a potential for portals that allow risk managers some interaction with it," said Ken Crerar, president of the Washington-based CIAB.

While efforts to build such technology solutions have failed in the past for a variety of reasons, Mr. Crerar said he believes the right financial strategic partners and technology finally have come together.

"It's never been an issue of if this was going to happen; it was just an issue of when," Mr. Crerar said.

LexisNexis brings an "enormous reputable brand" to the exchange. It understands data and how to provide data to people who need it, and it understands technology and how to manage the data on that technology. "Those are the two primary pieces of any exchange," he said.

For CIAB to be involved, the exchange had to be an "all-industry" exchange, Mr. Crerar said. It's not just for CIAB members, he said. "This is Switzerland. Everyone can play on it."

"The enthusiasm of the broker community and the clear opportunity to improve their day-to-day processes made this a compelling business case for us," James M. Peck, chief executive officer of LexisNexis Risk Solutions, said in a statement. "Our technology behind the insurance exchange is a great fit for helping this industry overcome some of its current challenges."

Pilot programs for middle-market general liability business are slated to begin in the third quarter of 2010, with full operability scheduled for early 2011. The insurance exchange will focus initially on

'The battle cry of risk managers for the last 15 to 20 years has a lot to do with quality. Part of the quality issues has been driven by basic administrative issues around the input of data.'

Ken Crerar,
Council of Insurance Agents & Brokers

middle-market commercial lines, with the eventual goal of supporting all sizes and lines of property/casualty insurance as well as group benefits.

"This has been everyone's dream forever and for good reason," said H. Wade Reece, chairman and CEO of Raleigh, N.C.-based broker BB&T Insurance Services Inc. "In looking at marketing anything on behalf of a client, it's just such a redundant system to have to go to each individual carrier," he said. "It's long been a dream...to have a process to make that much more efficient."

Mr. Reece said BB&T plans to participate in the pilot program.

"The battle cry of risk managers for the last 15 to 20 years has a lot to do with quality," CIAB's Mr. Crerar said. "Part of the quality issues has been driven by basic administrative issues around the input of data."

CIAB estimates that between 60% and 70% of the policies that brokers receive from insurers to review contain errors.

"A lot of that will end up being less of an issue because there will be single entry," Mr. Crerar said. "So the quality of what we do on the administrative side will improve substantially enough to allow brokers to really focus on what they are doing."

But more than making the distribution process more efficient, the exchange also will be able to provide real-time market information, Mr. Crerar said.

For example, "right now there is no real-time data on rates," he said. All rate studies, including CIAB's quarterly market index, are retrospective. With the exchange, the industry will be able to "look at where rates are in a particular line of business and particular region essentially in real time," he said.

To protect the data flowing through the exchange, the CIAB will establish The Insurance Exchange Trust that will be run and managed by insurance brokers and work with LexisNexis, Mr. Crerar said. The trust will act as the custodial agent for all data flowing in and out of the exchange, ensuring the exchange operates according to its founding principles of fairness, neutrality and data protection, Mr. Crerar said.

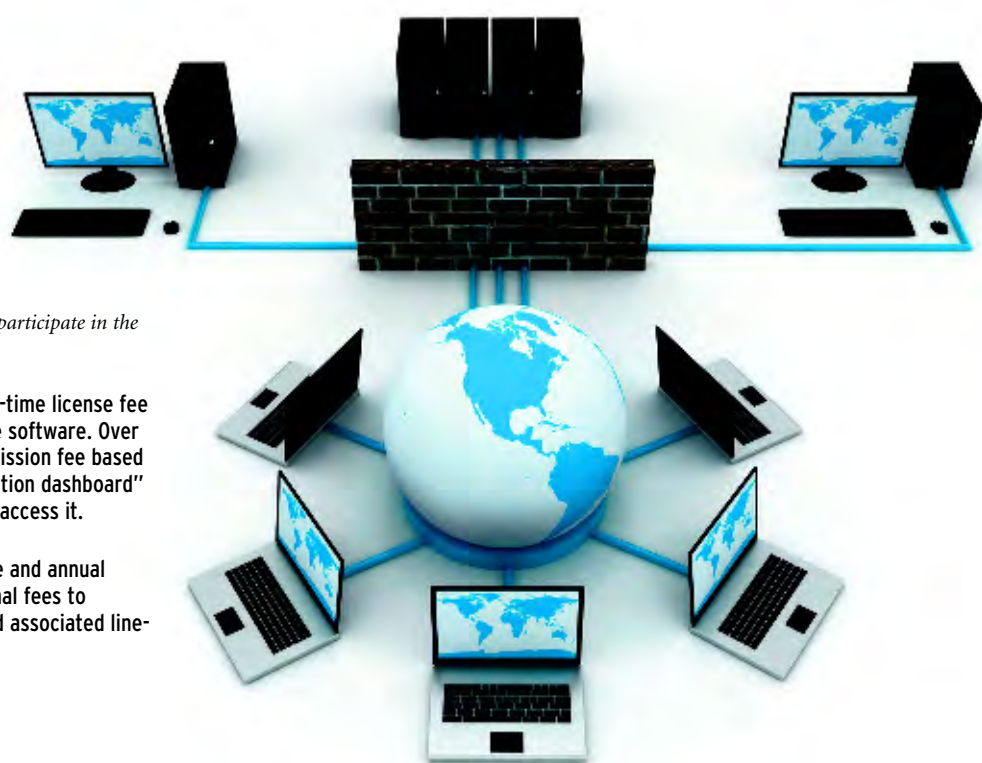
In regard to the new exchange, BB&T's Mr. Reece, for one, said he is "very hopeful that we've found the right answer and the right solution to bring better efficiency and certainly a much smoother process to both the insurance carriers and brokers."

COST OF PARTICIPATION

What agents, brokers and insurers would pay to participate in the insurance exchange:

- **AGENTS AND BROKERS WILL PAY** a one-time license fee per user and a monthly support fee for the software. Over time, the pricing will include a policy submission fee based on policy size. As the exchange's "information dashboard" is built, there will be a subscription fee to access it.
- **INSURERS WILL PAY** an initial license fee and annual support fee for the software, with additional fees to maintain the insurer product inventory and associated line-of-business connections to the exchange.

Source: Council of Insurance Agents & Brokers



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Martin J. Ross III, Publisher
9-29-09

COBRA: Obama, Congress consider subsidy extension

CONTINUED FROM PAGE 1

termination of employment. In those situations, beneficiaries pay the full COBRA premium, which is 102% of the group rate.

The premium subsidy, which generally became available starting March 1, has had a dramatic effect on the COBRA opt-in rate, doubling the percentage of laid-off employees opting for COBRA.

From March 1 through June 30, monthly enrollment rates for laid-off employees averaged 38%, according to a Hewitt Associates Inc. analysis of COBRA enrollments among 200 large employers (see box).

The reason for the surge is obvious: Coverage is more affordable when the federal government picks up 65% of the COBRA premium, which for individual coverage often is about \$400 a month and for families is about \$1,200.

“The subsidy has been a godsend to those who have lost their jobs,” said Tom Lerche, health care practice leader with Aon Consulting in Chicago.

But unless Congress extends the subsidy, soon it will disappear for millions of unemployed Americans and their families. Beneficiaries who

have collected the subsidy since March will see that end in November; and workers who lose their jobs beginning Jan. 1, 2010, will be ineligible without an extension.

Popular measure

But benefit observers say continuing high unemployment—the rate hit a 26-year high of 9.8% in September—and the popularity of the subsidy make it almost certain that federal legislators will agree to extend it.

An extension is “almost a no-brainer,” said Andy Anderson, a partner with Morgan, Lewis & Bockius L.L.P. in Chicago.

“One way or another, a legislative vehicle will be found to which” a subsidy extension will be attached, said Frank McArdle, a consultant in the Washington office of Hewitt.

Others, though, are less certain.

“While the passion is there, the appetite (in Congress) for additional federal spending is greatly reduced,” said Neil Trautwein, vp and employee benefits counsel with the National Retail Federation in Washington.

The congressional Joint Committee on Taxation estimated earlier that the subsidy would cost the government about \$25 billion for about

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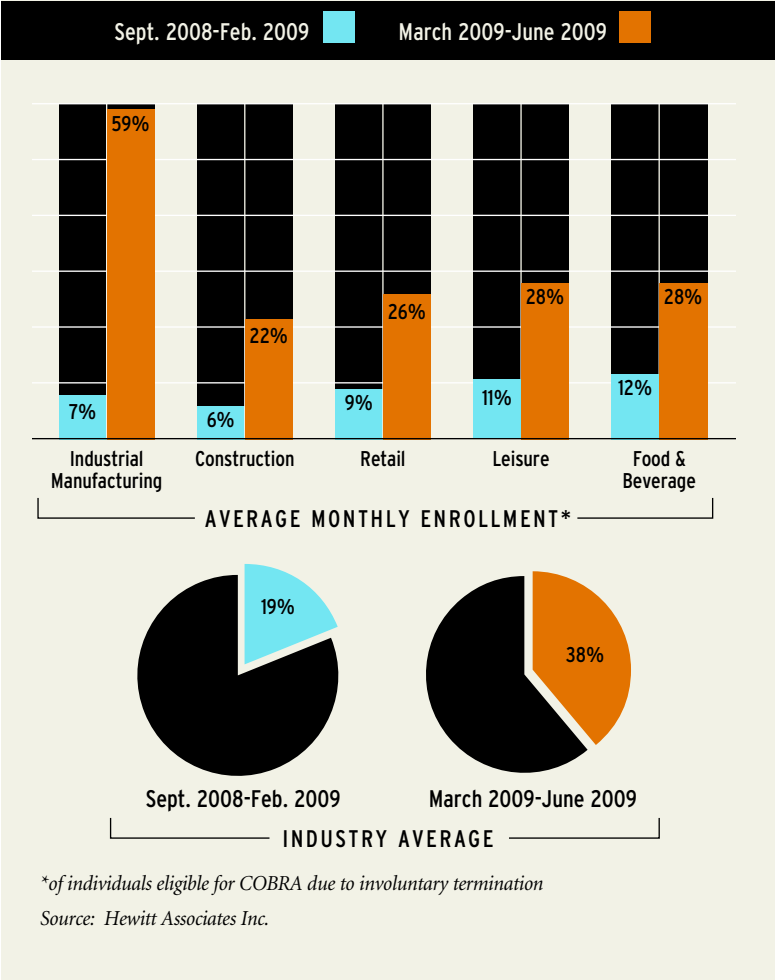


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SURGING COBRA ENROLLMENT

Industries with the biggest increases in COBRA enrollment since a federal premium subsidy kicked in



7 million jobless individuals and their families.

Unknown, though, is the cost of the subsidy to employers. A rough rule of thumb prior to the subsidy law was that for every \$1 employers collect in COBRA premiums, they pay out \$1.50 in beneficiaries' claims. That is because those opting for COBRA typically are heavy users of health care services.

“The basic problem is adverse selection,” said Mark Ugoretz, president of the ERISA Industry Committee in Washington.

‘On the face of it, the subsidy is a government-financed program. The reality is there are some significant costs to employers.’

Kathryn Wilber, American Benefits Council

In theory, the government premium subsidy should improve the risk pool because a greater number of healthier beneficiaries would be more likely to opt for coverage. But there is no evidence of that yet. In fact, Aon Consulting’s Mr. Lerche noted that beneficiaries may be using even more health care services because they fear they may not land a new job and employer-provided coverage before COBRA runs out.

“There is an added impetus to get everything done,” Mr. Lerche said.

Even if the COBRA risk pool has improved, premiums received by employers still fall short of covering beneficiaries' claims costs, said Scott Keyes, a senior consultant with Watson Wyatt Worldwide in Stamford, Conn.

“There are still higher-than-average-risk individuals” opting for COBRA coverage, Mr. Keyes said.

“On the face of it, the subsidy is a government-financed program. The reality is there are some significant costs to employers,” said Kathryn Wilber, senior counsel-health policy at the American Benefits Council in Washington.

Few administrative issues

Still, if Congress extends the subsidy, employers won’t face the administrative problems they incurred earlier this year when the subsidy legislation was passed.

Because Congress made the law retroactive, employers had to locate and notify employees who were laid off as early as Sept. 1, 2008, and who initially rejected COBRA, that they had a second opportunity to opt for coverage.

In addition, employers had to guess—until the Internal Revenue Service later provided guidance—in certain less-than-clear-cut situations whether former employees were entitled to the subsidy.

Since then, administration of the COBRA premium subsidy “has become a normal course of business” for employers, said Karen Frost, a Hewitt Associates health and welfare outsourcing leader in Lincolnshire, Ill.

For employers, the premium subsidy program “is no longer an administrative issue; it is a cost issue,” said Watson Wyatt’s Mr. Keyes.



KEY PROVISIONS

The draft Federal Insurance Office Act of 2009 would establish a Federal Insurance Office within the Treasury Department. The office would have the power to:

- Oversee the federal terrorism insurance program.
- Establish federal policy on international insurance matters.
- Gather and analyze data on information on all lines of insurance except health insurance.
- Pre-empt state regulations under certain circumstances involving foreign insurers and international insurance agreements.

Source: House Financial Services Committee

Reform: Proposed insurer overseer divides industry

CONTINUED FROM PAGE 3

However, the latest bill contains the "potential for mission creep," Janice Abraham, president and chief executive officer of Chevy Chase, Md.-based United Educators Insurance, told the committee. Appearing on behalf of the Des Plaines, Ill.-based Property Casualty Insurers Assn. of America, Ms. Abraham expressed concern about the possible dual regulation of insurers. PCI supports state regulation of insurers.

The Washington-based American Insurance Assn., however, as a long-time supporter of a federal regulatory option for insurers, welcomed the bill.

"While the discussion draft does not create a national functional insurance regulator, the Federal Insurance Office, if structured correctly, would represent a substantial contribution toward broadening and deepening our nation's understanding of the critical role of insurance in our financial system," Stef Zielezienski, AIA's senior vp and general counsel, told the panel.

The Risk & Insurance Management Society Inc. has "supported this original concept since it was introduced last year by Rep. Kanjorski" and has made it a legislative priority, Deborah Luthi, RIMS director-external affairs and director-enterprise risk management for Sacramento, Calif.-based Matheson Inc., said in an interview. "We sup-

port it. We would really like to see the office strengthened and, in that regard, sent comments to Rep. Kanjorski and Chairman Frank's staff at their request," she said, referring to Financial Services Committee Chairman Barney Frank, D-Mass.

The National Assn. of Mutual Insurance Cos., though, says the draft proposal goes too far.

"It appears that the stated goals and objectives of the office no longer exactly match the actual language," Jimi Grande, senior vp in NAMIC's Washington office, said after the hearing.

The original version of the bill would have stopped at bringing greater insurance expertise to Washington, through the proposed Office of Insurance Information, he said.

Many of the changes in the new bill, "are dangerously close creating a potential federal regulator. A lot of the language in the data collection is overly broad. What's critically important for NAMIC is we have to be sure this isn't a wolf in sheep's clothing," Mr. Grande said.

"The fact that the Kanjorski legislation is disappointing people on both sides of the equation—those who feel it goes too far and those who feel, it doesn't go far enough—is probably evidence that he struck the right balance," Joel Wood, senior vp of the Council of Insurance Agents and Brokers in Washington, said in an interview.

Survey: P/C rates stay soft

CONTINUED FROM PAGE 4

likely was more pronounced for middle-market companies, he said.

Current rates for general liability and workers compensation insurance are near their 2001 levels and not expected to harden soon, he said.

"We're at fairly dire rate levels for those lines of business," Mr. Bradford said. "Almost all the gains of the hard market have been given back now."

Third-quarter 2009 renewals of directors and officers liability policies essentially remained unchanged vs. the year-earlier period, although there are two D&O liability sectors working in opposite directions.

For financial institutions, which have been hit with waves of lawsuits and regulatory actions in the wake of the credit crisis and subprime-mortgage meltdown, D&O liability cover is increasing in price; for other accounts, the price of the average D&O liability policy is decreasing, the survey found.

But Mr. Bradford said that subprime- and credit crisis-related liti-

gation against financial institutions appears to be dropping off. Lawsuits against nonfinancial institutions are expected to increase during the next few quarters, he said.

"One quarter doesn't make a trend, but what appears to be happening is that as the number of subprime and credit-crisis suits starts to fall off, plaintiffs attorneys are dusting off the other suits that are sitting in the bottom drawer and starting to file them," Mr. Bradford said.

The price of property/casualty coverage remains low despite lower profits and poor investment returns for insurers, in part because economic pressures have prompted many companies to buy less insurance, which forces underwriters to compete for fewer premium dollars, RIMS said in a statement.

"Under normal circumstances, premiums should be rising by now," Daniel H. Kugler, a member of the RIMS board of directors, said in the statement. "But many companies are buying less insurance, and underwriters feel pressured to keep prices low to hold on to the remaining premium dollars."



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News In Brief

CONTINUED FROM PAGE 1

the NASDAQ Global Select Market under the ticker symbol VRSK, said it sold nearly 85.3 million shares at \$22 per share. Verisk provides risk-assessment services in insurance and risk management, among other areas. Its businesses include Boston-based ISO subsidiary AIR Worldwide Corp., which provides catastrophe modeling. Verisk said it will not receive any proceeds from the sale of shares in the offering. Proceeds will go to the selling stockholders. Shares closed Friday at \$26.40.

Pay 'czar' OKs package for AIG's Benmosche

U.S. pay "czar" Kenneth R. Feinberg has approved American International Group Inc. President and Chief Executive Officer Robert H. Benmosche's annual pay package of \$10.5 million. Mr. Feinberg, who is special master for executive compensation under the Troubled Asset Relief Program, said in an Oct. 2 letter that Mr. Benmosche's pay package is consistent with TARP and the Emergency Economic Stabilization Act of 2008. Mr. Benmosche's pay package must receive approval because AIG is a recipient of TARP funds. An Aug. 16 "proposed letter agreement" sent to Mr. Benmosche by AIG said he will receive an initial annual cash salary of \$3 million, \$4 million in stock, and up to \$3.5 million in stock as a long-term incentive award. He is not entitled to any severance pay.

RIMS calls for mandatory risk panels at public firms

The Risk & Insurance Management Society Inc. called for mandatory risk committees for certain publicly traded companies. The call came in a letter sent by New York-based RIMS to members of the House Financial Services Committee. In the letter, RIMS President Joe Restoule urged committee members to "require all publicly traded companies of a certain size to establish separate board-level 'risk committees' to evaluate the enterprise risk of a corporation. The composition of the committee should include at least one risk management expert," wrote Mr. Restoule, also leader of risk management for NOVA Chemicals Corp. in Calgary, Canada.

Guy Carpenter to buy Rattner Mackenzie

Guy Carpenter & Co. L.L.C. has entered into an agreement to acquire London-based reinsurance broker Rattner Mackenzie Ltd. from parent HCC Insurance Holdings Inc. Terms of the deal were not disclosed. RML operates as a Lloyd's of London broker specializing in specialty accident and health, aviation, trade credit, and property/casualty insurance and reinsurance.

Mental health parity regulations delayed

Employers must comply with a new mental health care benefits parity law next year, but may have to do so initially without the aid of federal regulations. The Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008, which takes effect for most group plans on Jan. 1, 2010, requires employers to provide the same coverage for mental health and substance abuse disorders as they do for other medical conditions in their group health care plans. However, federal officials say regulations won't be ready until January at the earliest.

Noted

TigerRisk Partners L.L.C., the reinsurance brokerage that industry veterans Rod Fox and Jim Stanard launched last year, has received an undisclosed financial boost from private equity firm Aquiline Capital Partners L.L.C., which is headed by former Marsh & McLennan Cos. Inc. Chief Executive Officer Jeffrey W. Greenberg....The U.S. Supreme Court has asked the Obama administration for its opinion on whether it should review a ruling upholding San Francisco's controversial **health care spending law**....San Francisco-based broker **Woodruff-Sawyer & Co.** said it has acquired the Western region direct practice of executive liability specialist Carpenter Moore Insurance Services from NASDAQ OMX Group Inc. Terms were not disclosed....The Labor Department has given **Dow Corning Corp.** tentative authorization to fund employee benefit risks through its Washington-based captive insurance company. Dow Corning, a joint venture of Dow Chemical Corp. and Corning Inc., wants to use its captive, Devonshire Underwriters Ltd., to fund life and long-term disability benefits....Commercial **property/casualty insurance rates** fell an average of 4% in September compared with September 2008, MarketScout reported.

Insurance payout offsets damages

Court rules developer cannot collect \$2.8B related to 9/11 attacks

By HILARY POTKEWITZ

NEW YORK—Developer Larry Silverstein will not be able to collect \$2.8 billion in damages he was seeking from airlines and security companies he claims are partially responsible for the Sept. 11, 2001, terrorist destruction of the World Trade Center, according to the most recent ruling in the eight-year saga.

A judge for the U.S. Southern District ruled that \$4.1 billion in insurance claims that Mr. Silverstein's firm, World Trade Center Properties, has collected from various insurers offset any damages he was seeking from the airlines.

The court earlier this year limited Mr. Silverstein's claim against the airlines and security companies to a



LANDOV

Developer Larry Silverstein sued airlines and security companies for damages related to the 2001 attacks.

maximum of \$2.8 billion—a much smaller amount than the \$12.8 billion he sought in the original suit, filed in 2004.

Mr. Silverstein sued the airlines and security companies for failing to prevent the attacks and was seeking damages for his losses after the Twin Towers fell.

The court ruled the insurance

recovery World Trade Center Properties already had received—the \$4.1 billion—could be used to offset Mr. Silverstein's claims against the airlines and security firms. Because the insurance money he received exceeded the maximum damages of \$2.8 billion, the claim was reduced to zero under New York law, the court said.

The ruling was a victory for the airline defendants, whose lawyer, Desmond Barry, indicated last year that Mr. Silverstein's suit was asking for more than the total amount of insurance the airlines and security firms had available.

Though the court stopped short of dismissing Mr. Silverstein's claims, he must seek permission from the court to appeal the ruling.

A representative for Mr. Silverstein did not immediately comment.

Hilary Potkewitz is a reporter for Crain's New York Business, sister publication of Business Insurance.

Bermuda: Island revamps insurance rules

CONTINUED FROM PAGE 4

tures were not subject to regulation at all.

Under the new regulations, all special-purpose insurers will be vetted in line with the BMA's risk-based approach to supervision. In order to be approved, the vehicles must pass a collateralization test on the basis of the structure and the risks that are being underwritten. In addition, to prevent credit risk, the regulations call for detailed reporting on the types of assets invested in the structures, as well an obligation to report any declines in asset valuations. The rules apply to any special-purpose insurer established in Bermuda.

Bermuda previously has enjoyed a strong sidecar market, approving some 26 sidecars in the wake of hurricanes Katrina, Wilma and Rita, with \$6.4 billion in total capital, according to the BMA. While sidecar formations have declined as a result of credit market conditions, observers say they expect sidecar formations to increase as additional capital becomes available.

"Should there be a market-changing event, such as a significant catastrophe, we anticipate there will be more sidecars launched as opposed to new company startups,"

said Andre Perez, CEO of Bermuda-based Horseshoe Group, an insurance management and consulting firm and member of the BMA's advisory group on special-purpose insurer supervision.

'Should there be a market-changing event, such as a significant catastrophe, we anticipate there will be more sidecars launched as opposed to new company startups.'

Andre Perez, Horseshoe Group

The cat bond market, however, is dominated by the Cayman Islands, and Bermuda has never been chosen as domicile for the incorporation of a cat bond, even though many cat bond sponsors have been Bermuda-based firms. That is something observers said they hope the

new regulations will change. "We think it will encourage cat bonds to come to Bermuda," said Mr. Perez.

Incorporating cat bonds in the Cayman Islands generally is viewed as inexpensive, and the domicile offers ample legal and other services to facilitate the transactions quickly, observers say. Bermuda "really couldn't compete on legal costs alone," said Chi Hum, global head of distribution at GC Securities Ltd. in New York, a unit of the MMC Securities Corp. division of Marsh & McLennan Cos. Inc.

However, Mr. Hum said, Bermuda's regulations are a "positive step that should streamline the process and, in turn, reduce costs."

Previously, potential cat bond sponsors had no clear path for setting up a transaction. The new designation "will prove to be a lot more attractive," he said.

However, observers say it's unclear exactly how much cat bond business Bermuda will win from the Cayman Islands.

"I don't see there being a rush to set up cat bond transactions in Bermuda in the short term, but I do believe it's more of a long-term investment," said David Cash, chief underwriting officer at Endurance Specialty Holdings Ltd. in Hamilton, Bermuda.

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Improving Workplace Safety For The Aging Workforce

THIS THURSDAY October 15 | 2 PM Eastern

Due to a combination of factors, the proportion of older workers is increasing rapidly. The Bureau of Labor Statistics estimates that between the years 2002 and 2012 the number of workers over age 55 will have increased nearly 50%, with the number of people in the labor force aged 65 and older growing more than three times as fast as the total labor force. This webinar will acquaint you with many of the steps you can take now to address this reality within your company.

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Japanese play strong suit in H1N1 fight

Call it risk management fashion for men.

A Japanese menswear company is selling business suits made to protect the wearer from the H1N1 flu virus.

The cost for the smartly tailored suit that comes in charcoal, medium gray, navy and a gray pinstripe is slightly less than \$600. The suits, which the Okayama-based company rolled out last week, will be sold eventually at Haruyama Trading Co.'s 272 retail stores across Japan.

Haruyama reportedly has produced 50,000 of the suits that use fibers coated with titanium dioxide. The company says titanium dioxide reacts with light to break down the flu virus on contact.

Reports say the chemical is commonly used in cosmetics and toothpaste and can be an effective disinfectant when exposed to ultraviolet light.

Haruyama's new suit is indistinguishable from the garb most Japanese businessmen typically wear to the office.

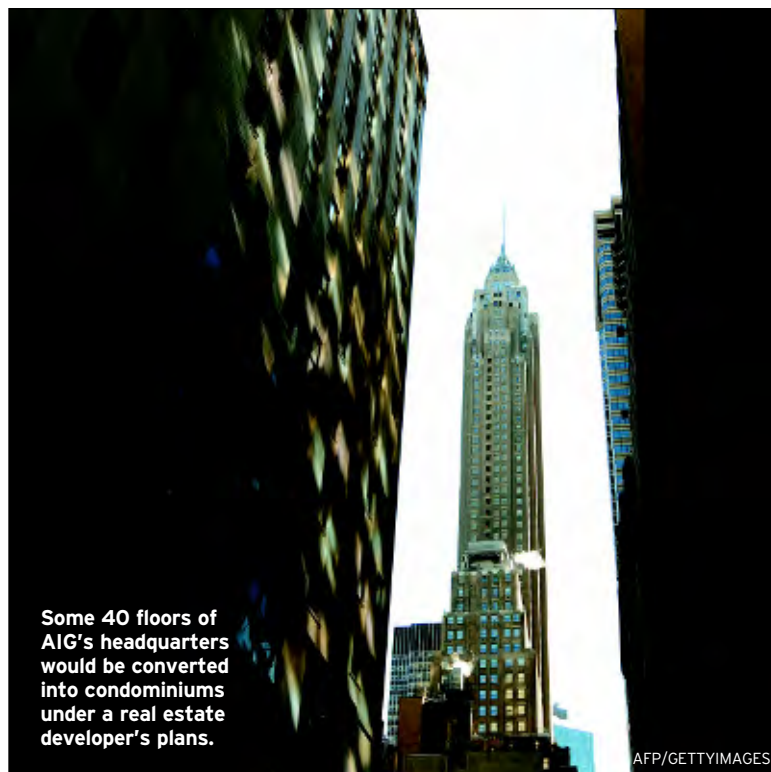
The company spent a year developing its new product, which is supposed to fend off the flu even after several washings.

If the new suits prove effective, that's all the more reason to wear professional attire to the office, especially with government reports that the incidence of influenza is increasing across Japan.



Business Insurance END PAGE

Contributing: Mark A. Hofmann, Roberto Cenicerros



Some 40 floors of AIG's headquarters would be converted into condominiums under a real estate developer's plans.

AFP/GETTYIMAGES

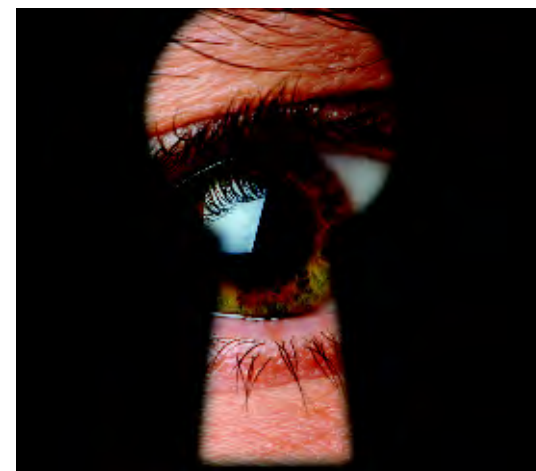
House that Hank built to become homes

American International Group Inc.'s New York headquarters building soon may have some new tenants.

That's because real estate developer Young Woo, who bought the building from AIG earlier this year, intends to convert the top 40 floors of the 66-story building into condos, according to a story on the Wall Street Journal's Web site last week. The story quotes Fox-Pitt Kelton Cochran Caronia Waller (USA) L.L.C. real estate analyst Robert Stevenson as saying his firm "believes this deal represents a good example of the types of opportunistic transactions that are likely to arise over the next year from the financial crisis."

In the article, Mr. Stevenson estimates Mr. Woo would get at least \$1,000 per square foot for condos in the building, which, in turn, would generate about \$600,000 in profit for each unit sold.

AIG may have been driven to the brink of disaster in part because of subprime mortgages, but for its headquarters' new owner, real estate looks like a prime investment.



Alleged taper in Andrews case has industry tie

It turns out there may be an insurance angle in the peephole case in which well-known ESPN reporter Erin Andrews was the victim.

Nude video of Ms. Andrews surfaced earlier this year. The video appeared to have been taken in a hotel room, which authorities say they believe was in Nashville, Tenn. Authorities also say they believe the footage was shot with a cell phone camera through a modified peephole on the hotel room door where Ms. Andrews was staying.

But until last week, no one had been arrested for the crime. Then, Michael David Barrett of Westmont, Ill., was picked up by FBI agents at Chicago's O'Hare Airport.

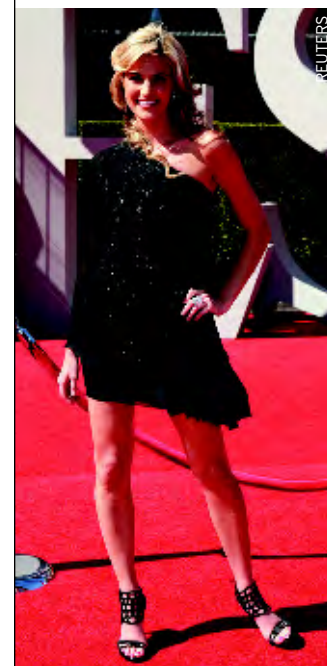
According to a CBS/AP story, an FBI affidavit said Mr. Barrett had requested and stayed in a room next to Ms. Andrews' room at the hotel where investigators believe seven of eight videos of Ms. Andrews were shot.

The story also noted that Mr. Barrett was employed by Glenview, Ill.-based Combined Insurance Co. of America, quoting a spokeswoman for the company who confirmed his employment and said the insurer was cooperating with the FBI.

A company spokeswoman also told the Chicago Sun-Times that Mr. Barrett has been suspended from his job and "there is no time frame with this suspension."

And rather than being employed in some sort of special investigative unit—which would have made the story even stranger than it is—the spokeswoman said Mr. Barrett worked in sales management.

♦ Ms. Andrews



We couldn't bid much higher

A copy of The Doors' first album, signed by keyboardist Ray Manzarek, is among items being auctioned to raise money for a new California organization with an unusual cause.

A group of female attorneys founded Injured Women After Reform to fight gender discrimination in the workers compensation system and elect political leaders committed to equality, and plans to use an online auction to help fund their efforts.

IWAR contends that Gov. Arnold Schwarzenegger and comp insurers share in the blame for laws that treat women

as the weaker sex by paying them less in disability benefits than men.

That allegedly is happening because of a California reform law adopted in 2004 that allows self-insured employers and insurers to apportion for causation when determining permanent disability awards. That means comp payers can subtract from benefits awards when they can show an injured worker suffered a pre-existing injury.

IWAR says the governor vetoed a bill last year that would have ended that disparity.

The group alleges the current

apportionment law leads doctors and judges to reduce permanent disability awards to account for medical conditions that are more common among women than men, such as osteoporosis. However, other attorneys have disagreed with that theory.

The starting bid for the 1967 self-titled Doors album is \$239. Other items in the auction include tickets to see the Los Angeles Lakers play the Houston Rockets, sports memorabilia and fused glass earrings from artisans in Chile.

Interested bidders can go to <http://www.iwaronebay.com>.



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BROKERS ARE KEY advisers for purchasers of commercial insurance, risk management and employee benefit programs. 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 a client's needs. For

the past 37 years, *Business Insurance* has produced annual rankings and reports about the brokerage industry. Our experienced staff also covers 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 17 years, and Special Projects Editor Rodd Zolkos, who has been with *BI* for more than 15 years, were key members of the team that produced this special supplement. As you'll read in the following pages, the economic downturn is creating significant challenges for insurance brokers and their clients. We hope this supplement helps you to better understand the brokerage industry.

— REGIS COCCIA, EDITOR, BUSINESS INSURANCE

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FALLBROKERREPORT2009

Brokers adjusting to challenging market conditions

By SALLY ROBERTS

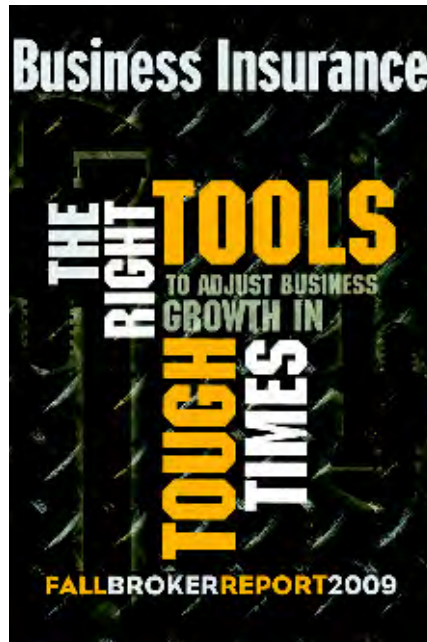
Companies of all types adjust their operations during challenging times, and the insurance brokerage industry is no different.

Prolonged soft insurance pricing coupled with the severe economic downturn have provided a difficult backdrop for brokers in 2009 as they seek ways to grow their businesses and adjust to their own challenges.

Whether it's fighting for the right to again accept contingent commissions, launching a small-account initiative, divesting noncore operations, switching domiciles or devising an entirely new business model, the brokerage industry has seen much change during the past 12 months.

Perhaps the biggest industry news this year occurred in August, when Itasca, Ill.-based Arthur J. Gallagher & Co. said it negotiated a deal with Illinois authorities to amend its 2005 client-steering settlement that allows it once again to accept millions of dollars in contingent commissions.

Illinois' attorney general and director of insurance acknowledged that because the contingent ban is not universal among agents and brokers, Gallagher may have been operating at a competitive disadvantage.



The move is seen as likely opening the door for similarly banned brokers—Marsh Inc., Aon Corp. and Willis Group Holdings Ltd.—to amend their settlements with other state authorities to resume collecting contingent commissions.

Also in response to what it said is an unlevel playing field, the New York Insurance Department is close to issuing new broker compensation disclosure regulations. Under its latest proposal, all

agents and brokers in the state would be required to disclose their compensation to clients upon request.

Also making news, London-based Willis recently said it plans to redomesticate from Bermuda to Ireland for a more stable tax environment. The move comes after the broker said it would seek to sell a portion of its 48% stake in French brokerage Gras Savoye & Cie and sold its surplus lines agency Bliss & Glennon Inc.

Rather than a divestiture, Marsh has spent most of this year seeking the right agency platform to launch its new small-account initiative Marsh & McLennan Agency. Marsh, which historically has dominated the Fortune 500 marketplace but has an inconsistent record in the small-account space, is looking to its new agency for future growth.

Then there is Integro Ltd., the four-year-old brokerage that attempted to build a large-account alternative to Marsh, Aon and Willis amid the 2005 broker investigations. After various assumptions didn't work out, Integro cut its costs and emerged this year as a smaller, multispecialty brokerage.

Change also has come to Brown & Brown Inc. After nearly 50 years at the helm, J. Hyatt Brown handed the reins of the family agency over to son J. Powell Brown in July.

Illinois lets Gallagher resume collecting contingents

Contingent commissions appear poised for a comeback among the world's largest insurance brokers, which have been banned from accepting the controversial payments since 2005.

After convincing Illinois authorities that it was operating at a competitive disadvantage, Arthur J. Gallagher & Co. received the green light in July to again accept contingents from insurers effective Oct. 1 as long as they are fully disclosed to clients.

Gallagher agreed to pay

millions of dollars in client restitution and to forgo contingents four years ago to settle concerns raised by Illinois' attorney general and director of insurance that Itasca, Ill.-based Gallagher steered business to insurers that paid the highest contingent commissions.

The move came after larger rivals Marsh Inc., Aon Corp. and Willis Group Holdings Ltd. agreed to similar concessions in settlements with New York and other state authorities.

Now that Gallagher's ban

has been lifted, attention has shifted to the world's three largest brokers and whether they will seek similar revisions to their settlements. Regulators and attorneys general appear sympathetic to their plight, although no action has been taken at this point.

Executives from Marsh and Aon say lifting the contingent ban is more about leveling the playing field than it is about collecting the extra fees, while Willis Chairman and Chief Executive Officer Joe Plumeri has said that,

even if allowed, Willis would not accept the payments as they present an inherent conflict of interest with clients. However, he has said that he expects Willis to be paid commensurately with other brokers that accept contingents.

For its part, the Risk & Insurance Management Society Inc. has said it opposes Illinois' decision to lift Gallagher's contingent ban and reiterated its position that contingents pose a conflict of interest and should be banned.

—By Sally Roberts

N.Y. readies new disclosure rule

The New York State Insurance Department appears close to promulgating new broker compensation disclosure regulations.

After holding joint hearings in 2008 with the New York attorney general's office to address the compensation system established by 2005 and 2006 settlements with certain brokers and insurers, the NYSID proposed new compensation disclosure requirements in January.

As it stands now, the proposed regulation would require insurance producers operating in the state to notify insurance buyers of their right to request information about the compensation that producers receive from insurers in connection with their insurance placements. Oral disclosures would be allowed, but the rule would require that they be followed up with written disclosures.

The rule, now in its third iteration, differs greatly from the original version, which would have mandated that agents and brokers disclose in writing to clients the "nature and amount" of any compensation they receive.

The Risk & Insurance Management Society Inc., for one, has criticized the latest proposed rule as not going far enough to protect the rights of insurance consumers who were hurt by the bid-rigging and contingent commission scandal that erupted in 2004 and prompted the ban.

Nevertheless, the newest version of the rule is unlikely to see any more significant changes, NYSID Special Counsel Matthew J. Gaul said at a September insurance symposium in New York.

"No one is particularly happy with the rule," Mr. Gaul said. "I take that to mean we probably ended up about where we should be...We tried to reach a compromise."

—By Sally Roberts

Marsh rolls out small-account plan

With more than \$2 billion to spend, Marsh & McLennan Cos. Inc. is shopping the insurance marketplace in hopes of finding the right platform to launch its small-account initiative.

Marsh in late 2008 announced the formation of Marsh & McLennan Agency Inc., which will run independently of Marsh Inc. and focus on clients with less than \$100 million in revenue.

In January, it hired veteran agency leader David S. Eslick as chairman of the new venture. Mr. Eslick most recently was chief executive officer of middle-market broker USI Holdings Corp.

Since he joined Marsh, Mr. Eslick has been scouring the market, looking for the right fit that will give



David Eslick

the agency its start.

In an interview earlier this year, Mr. Eslick said that while several firms have shown an interest in Marsh & McLennan Agency and a willingness to talk, "we're being very disciplined" about the process. "Finding the right partner with the right leadership talent is going to be a key determinate" of

the agency's success, he said.

The agency expects to have completed its first couple of initial platform acquisitions by the end of the year, Mr. Eslick reportedly said.

Although Marsh has an inconsistent record in the smaller account sector, executives say they are committed to the agency and are looking to it for future growth.

—By Sally Roberts

Willis moving domicile to Ireland

Willis Group Holdings Ltd. has kept busy this year divesting its wholesale unit, seeking to sell part of its stake in its French brokerage partner and moving its Bermuda-based domicile to Ireland.

In April, Willis said it had sold Redondo Beach, Calif.-based managing general agency and surplus lines broker Bliss & Glennon Inc., which it inherited with its 2008 acquisition of Hilb, Rogal & Hobbs Co.

Willis said the move—terms of which were not disclosed—was driven by its desire to focus on its retail brokerage business in the United States.

Willis previously exited the U.S. wholesale market in 2005 when it sold Stewart Smith Group Inc. amid industry concerns over potential conflicts of interest that could arise from retail brokers owning wholesale operations.

In June, the broker announced it was seeking to sell some of its stake in Paris-based Gras Savoye & Cie.

Willis owns 48% of Gras Savoye's voting rights, but it could become obligated to purchase the remaining Gras Savoye shares by 2011 under a so-

called "put" agreement.

Rather than be potentially on the hook for having to buy a majority stake in the firm, Willis Chairman and Chief Executive Officer Joe Plumeri said during a second-quarter 2009 analyst call that he'd like to sell part of Willis' shares to a private equity firm that could build Gras Savoye "in a way that is more efficient and...more consistent with Willis' business."

Mr. Plumeri said Willis still intends to buy a majority stake in the brokerage three to four years down the road.

Willis made headlines again in September when it announced plans to redomesticate from Bermuda to Ireland for "a more stable environment" where it can remain competitive.

Willis became the latest Bermuda-domiciled insurance-related entity to exit the island in the past year for tax and other reasons.

If Willis shareholders approve the plan, a new Irish company, Willis Group Holdings P.L.C., is expected to replace Willis Group Holdings Ltd. as the parent company.

—By Sally Roberts

Marsh seeks to limit its liability exposure with clients

In an effort to reduce its professional liability exposure, Marsh Inc. said in March that it would ask clients to sign off on service agreements that included a \$10 million liability cap.

The move, executives said, was about prudent risk management and not any widespread problem at the New York-based brokerage. They noted that the cap would not affect most clients

bringing errors and omissions claims against Marsh, but would protect the firm from low-frequency, high-severity claims that could negatively affect the bottom line of the firm, which largely self-insures those risks.

"We do stand behind our business, but we are not the insurer of last resort," Brian Duperreault, president and chief executive officer of Marsh & McLennan Cos. Inc.,

said at the time.

Claims of willful or intentional misconduct are excluded from the cap.

By July, Marsh said several hundred clients had agreed to its terms and only a limited number of clients had negotiated to raise the cap amount.

Other brokerage rivals, including Lockton Cos. L.L.C. and Willis Group Holdings Ltd., have said they are

reviewing the liability cap concept, while Wells Fargo Insurance Services Inc., for one, said it considered but decided against implementing a cap on its liability.

Other brokers, including Aon Corp. and Beecher Carlson, declined to comment on the issue.

Ultimately, the marketplace will decide whether the cap is a good idea, observers say.

—By Sally Roberts

J. Hyatt Brown hands over the reins at Brown & Brown

A torch was officially passed at Brown & Brown Inc. in July when J. Hyatt Brown handed control of the broker to his son J. Powell Brown.

Hyatt Brown had headed the Daytona Beach, Fla.-based company since taking over the family agency in 1961, a short time after graduating from college. After nearly five decades as the company's chief executive officer, on July 1 he passed the CEO title to his eldest son as part of a succession plan announced a year ago. Powell Brown, 41,



J. Hyatt Brown



J. Powell Brown

adds the CEO title to his existing role as Brown & Brown's president, a position he has held since 2007.

The elder Mr. Brown, 71, will remain Brown & Brown's

nonexecutive chairman, focusing on acquisitions and mentoring young producers.

But for time spent in the Florida House from 1972 to

1980—where he was speaker from 1978 to 1980—Hyatt Brown led Brown & Brown as it grew from a company with seven employees and \$61,000 in annual revenue in 1961 to

a publicly traded company with 5,400 employees and just under \$1 billion in revenue today.

Powell Brown indicated he intends to continue with the strategies that have worked for Brown & Brown, maintaining its middle-market focus and serving its clients from a decentralized business model. The agency also will continue its reliance on acquisitions to drive much of its growth as well as its emphasis on acquiring top talent.

—By Rodd Zolkos

Integro retools plan to focus on specialty offerings

As a result of adopting a new business model, cost-cutting and restructuring, Integro Ltd. emerged this year as a smaller, multispecialty brokerage rather than a large-account firm competing with likes of Marsh Inc. and Aon Corp. that Integro's original business plan envisioned.

Integro attracted considerable industry attention in 2005 when former Marsh colleagues Robert Clements, Roger E. Egan and Peter F. Garvey secured \$320 million in

financing to launch a the brokerage.

At the time, the hope was to build the new company's book of business by capitalizing on the struggles of brokers facing investigations and lawsuits over business practices and acceptance of contingent commissions.

While the new broker enjoyed some early success, it



Peter Garvey

became obvious over time that the largest brokers were putting their legal problems behind them and retaining most of their clients.

Today's recast Integro offers multiple specialty coverages for complex

property/casualty risks, focusing on sectors that include health care, real estate, high tech, private equity and financial institutions. It's

looking to grow organically and through selective hires and acquisitions.

As part of its refocusing, Integro cut approximately 20% of its workforce—about 70 employees—most of whom occupied corporate back-office positions.

Mr. Garvey, Integro's founding president, replaced Mr. Egan as chief executive officer last September, while Mr. Clements remains aboard as the company's nonexecutive chairman.

—By Rodd Zolkos

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Wells Fargo revamps structure, integrating Wachovia

With completion of the 15-month task of integrating ABD Insurance & Financial Services Inc. late in 2008, Wells Fargo Insurance Services Inc. this year moved forward with the task of integrating the larger Wachovia Insurance Services Inc.

Wells Fargo & Co., the San Francisco-based parent of Chicago-based WFIS, acquired Wachovia late last year in a \$12 billion, all-stock transaction.

Wells Fargo fended off Citigroup Inc., which also had designs on Charlotte, N.C.-



David Zuercher

based Wachovia, a victim of the financial crisis.

Early this year, Wells Fargo implemented a new management team and regional structure for the combined insurance brokerage operation, with executives and senior management being a mix of former Wells Fargo, ABD and Wachovia Insurance leaders.

At that time, David Zuercher, chairman, president and chief executive officer of WFIS, outlined a structure under which the broker will operate in 15 small regions rather than five large ones, a plan aimed at allowing regional managers to be more closely

aligned with the needs of their customers and local sales strategies.

While Mr. Zuercher and outside observers acknowledged some cultural differences between Wells Fargo and Wachovia, they also cited enhanced opportunities for the broker in the expansion of its geographical footprint, the addition of expertise, and the improvement of its regional alignment with Wells Fargo's banking operations and subsequent increased cross-selling opportunities.

—By Rodd Zolkos

Mergers and acquisitions slowed by weak economy

A weak economy, tight credit markets and a soft insurance market have put a damper on broker merger and acquisition activity in 2009.

The result is an environment in which some see more sellers than buyers, with the buyers being particularly selective and deliberate. It's a dramatic departure from the climate of recent years in which broker M&A activity

moved at a record pace, driven by strong valuations, relatively easy credit and abundant capital.

While industry M&A activity is down, it hasn't stopped, however. Experts note that the same factors that historically have driven such activity—a fragmented agent/broker marketplace and a need for scale—continue to exist.

Consultant and M&A adviser Marsh, Berry & Co. Inc. based in

Willoughby, Ohio, has estimated that the number of transactions in 2009 will be down 9% from the estimated 810 agent/broker deals done last year.

In today's climate, some experts see those sellers who can wait refusing to sell at a discount and looking for improved market conditions they hope will increase their value.

And of the larger brokers still looking to buy, many are taking longer looks at opportunities before pulling the trigger, putting an emphasis on finding quality partners that are a proper fit strategically and culturally.

—By Rodd Zolkos

737

DEALS: Insurance agent and broker mergers and acquisitions so far in 2009, a 9% decline.

Aon Ltd. fixes lax controls and receives FSA kudos

The United Kingdom's Financial Services Authority in January imposed at \$7.9 million

ly with the FSA. It was imposed because the broker "failed to properly assess the risks involved in its dealings with overseas firms and individuals who helped it win business, and it failed to implement effective controls to mitigate those risks," according to the FSA.

As a result, the FSA charged that between Jan. 14, 2005, and Sept. 30, 2007, Aon Ltd. made about \$7 million in "suspicious payments" to several overseas firms and individuals.

Aon since has revamped its global systems and controls on bribery and corruption, earning praise from the FSA for its "proactive determination" to identify and correct past issues.

The FSA described Aon's actions as "a model of best practice that other firms may wish to adopt."

—By Rodd Zolkos



The U.K. Financial Services Authority fined London-based Aon Ltd. in January over lax risk controls.

fine on Aon Corp.'s U.K. operation for lax anti-bribery and corruption controls, the largest fine ever imposed by the FSA for a financial crime.

The fine assessed against London-based Aon Ltd. was reduced from \$11.3 million because Aon settled quick-

World's 10 largest insurance brokers

Ranked by 2008 brokerage revenues

	Company/Address	Phone/ Web site	Chief executive	2008 brokerage revenues	% change	2008 employees	2008 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	\$11,516,000,000	3.80%	54,400	700
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 www.aon.com	Gregory Case, president/CEO	\$7,310,000,000	4.50%	37,700	397
3	Willis Group Holdings Ltd. ¹ 51 Lime St., London, EC3M 7DQ England	44-203-124-6000 www.willis.com	Joe Plumeri, chairman/CEO	\$3,362,000,000	36.50%	17,000	400
4	Wells Fargo Insurance Services Inc. ² 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 wfis.wellsfargo.com	David J. Zuercher, chairman	\$1,743,062,000	35.95%	7,905	213
5	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/president/CEO	\$1,611,302,000	5.76%	9,863	200
6	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London, EC3N 2PH England	44-207-528-4444 www.jltgroup.com	Dominic Burke, group chief executive	\$992,843,665 ³	4.80%	5,488	76
7	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 www.bbinsurance.com	J. Powell Brown, president/CEO	\$965,982,617	5.61%	5,398	132
8	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 www.bbt.com	H. Wade Reece, chairman/CEO	\$962,134,200	9.66%	4,462	109
9	Gras Savoye & Cie 2-8 rue Ancelle, Neuilly-sur-Seine, 92200 France	33-1-41-43-5000 www.grassavoye.com	Patrick Lucas, managing partner/CEO	\$786,368,400 ⁴	15.58%	3,650	102
10	Lockton Cos. L.L.C. 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 www.lockton.com	David M. Lockton, chairman	\$778,345,000 ⁵	6.89%	3,850	48

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

Source: *BI* survey

Researched by Kevin Edison

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TOP BROKERS

RANK

1



Brian Duperreault,
president/CEO

MARSH & McLENNAN COS. INC.

2008 GROSS REVENUES

\$11,635,000,000

↑
3.2%

2008 BROKERAGE REVENUES

\$11,516,000,000

↑
3.8%

After little more than 20 months at the helm, the top leaders of Marsh & McLennan Cos. Inc. and retail brokerage unit Marsh Inc. have done what their predecessors could not—improve profitability at the world's largest brokerage.

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

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

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

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

With the foundation now in place, executives say Marsh is poised to grow and acquisitions will play a key role in that effort. Compared with 2007, "we're in

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

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

Fixing Marsh, which had yet to recover from its 2004 fraud and bid-rigging suit and resulting \$850 million settlement with former New York Attorney General Eliot Spitzer, was a priority.

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

Adjusted operating margins, which measure operating efficiency, for MMC's risk and insurance services segment was 25% in first-quarter 2009 vs. 17.6% a year earlier.

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

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

Another key initiative in 2008 was the creation of a centralized placement process.

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

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

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

He also said due to Marsh's more efficient placement strategy, more than 30 insurers have agreed to pay Marsh enhanced commissions and about 70% of its client base has consented to the commissions.

Unlike contingent commissions, which are based on volume and profitability and which Marsh is prohibited from taking from insurers, enhanced

commissions are based on the value Marsh creates for insurers, though how those commissions are calculated vary by insurer, Mr. Glaser said.

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

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

chairman.

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

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

Mr. Glaser said most, but not all, of the capital will go toward building the agency.

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

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

—By Sally Roberts



Chairman and
CEO Dan Glaser
has improved
Marsh's
profitability.

TOP BROKERS

RANK

2



Gregory Case,
president/CEO

AON CORP.

2008 GROSS REVENUES

\$7,631,000,000

↑
3.7%

2008 BROKERAGE REVENUES

\$7,310,000,000

↑
4.5%

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

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

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

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

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

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

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

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

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

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

around 10 key components."

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

"What GRIP allows us to do on behalf of clients and markets is understand on a real-time basis what is happening to pricing, terms and conditions, exposures worldwide across the global insurance marketplace," Mr. Devine said.

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

The third element Mr. Devine said ARS allows is the Aon Leadership Model, "a singular set of criteria" on which all Aon employees, from Aon Corp. President and CEO Gregory Case and Mr. McGill on down, are evaluated. "None of those three things would have been viable without the pulling together of our ARS leadership team," Mr. Devine said of 28 executives who lead major geographic and industry practices around the world.

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

"Given the current economic environment, there's clear cost pressure on everyone," Mr. Devine said.

"That's required us to be very clear in helping our clients understand the terms and conditions, helping them

reduce the insurance premiums they're paying, and make sure they're buying the right amount of risk cover for their risk tolerance," he said. "It really starts with listening to the client."

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

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

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

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

—By Rodd Zolkos

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

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

2008 rank	Company	2008 revenue	% change
1	Marsh & McLennan Cos. Inc.	\$ 5,297,360,000	-0.52%
2	Aon Corp.	\$ 2,558,500,000	-1.15%
3	Willis Group Holdings Ltd. ¹	\$ 1,781,860,000	68.24%
4	Wells Fargo Insurance Services ²	\$ 1,743,062,000	35.95%
5	Arthur J. Gallagher & Co.	\$ 1,401,832,740	4.56%
6	Brown & Brown Inc.	\$ 963,084,669	5.30%
7	BB&T Insurance Services Inc.	\$ 962,134,200	9.66%
8	USI Holdings Corp.	\$ 633,155,000	2.60%
9	Hub International Ltd.	\$ 537,604,900	10.92%
10	Lockton Cos. L.L.C.	\$ 537,058,050 ³	6.89%
11	Alliant Insurance Services Inc.	\$ 332,867,399	14.25%
12	Leavitt Group	\$ 177,254,000	1.43%
13	CBIZ Benefits & Insurance Services Inc.	\$ 156,800,000	7.54%
14	Keenan & Associates	\$ 133,778,000	8.47%
15	Jardine Lloyd Thompson Group P.L.C.	\$ 129,069,676 ⁴	-19.86%
16	Frank Crystal & Co. Inc.	\$ 126,250,000	5.49%
17	Meadowbrook Insurance Group Inc.	\$ 113,343,000	9.08%
18	Regions Insurance Group Inc.	\$ 110,502,202	8.58%
19	Bollinger Inc.	\$ 103,767,372	-0.81%
20	Hays Group Inc., dba Hays Cos.	\$ 103,400,000	6.16%
21	J. Smith Lanier & Co.	\$ 102,768,548	6.42%
22	John L. Wortham & Son L.P.	\$ 99,359,848	-0.50%
23	BancorpSouth Insurance Services Inc.	\$ 93,066,992	26.53%
24	Holmes Murphy & Associates Inc.	\$ 92,705,124	5.40%
25	Hylant Group Inc.	\$ 90,501,577	0.29%

2008 rank	Company	2008 revenue	% change
26	Mesirow Insurance Services Inc.	\$ 89,968,189 ⁵	1.02%
27	Allied North America	\$ 88,054,503	2.44%
28	Neace Lukens Holding Co.	\$ 81,583,384	5.21%
29	Beecher Carlson Holdings Inc.	\$ 81,552,366	13.72%
30	IMA Financial Group Inc.	\$ 80,397,667	10.66%
31	Insurance Office of America Inc.	\$ 77,099,818	2.13%
32	Thomas Rutherford Inc.	\$ 76,316,095 ⁶	7.56%
33	Conner Strong Cos. Inc.	\$ 75,873,560	-0.30%
34	NIA Group L.L.C.	\$ 69,650,000	-6.89%
35	Heffernan Group	\$ 67,888,000	-2.24%
36	Trion Group Inc. dba Trion	\$ 67,700,000	8.15%
37	T&H Group Inc. ⁷	\$ 65,553,077	4.17%
38	Huntington Insurance Inc., dba Sky Insurance Inc.	\$ 63,992,000	0.94%
39	Oswald Cos. & Affiliates ⁸	\$ 63,899,550	4.37%
40	Barney & Barney L.L.C.	\$ 62,942,220	22.54%
41	TD Insurance Inc. ⁹	\$ 57,305,200	1.33%
42	Woodruff-Sawyer & Co.	\$ 56,810,000	-0.33%
43	Guaranty Insurance Services Inc.	\$ 56,330,534	-17.58%
44	BBVA Compass Insurance Agency Inc.	\$ 55,692,781	-7.61%
45	Associated Financial Group L.L.C.	\$ 55,281,833	1.85%
46	Frenkel & Co. Inc.	\$ 53,906,892	4.81%
47	Cottingham & Butler Inc.	\$ 53,845,000	7.04%
48	Capacity Group of Cos.	\$ 52,499,034	9.18%
49	Western States Insurance	\$ 51,759,596	2.52%
50	Integro USA Inc.	\$ 51,480,000	18.67%

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

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

2008 rank	Company	2008 revenue	% change
51	Eastern Insurance Group L.L.C.	\$ 51,204,320	25.48%
52	Higginbotham & Associates Inc.	\$ 48,086,881	25.05%
53	Marshall & Sterling Enterprises Inc.	\$ 47,063,937	-3.41%
54	Mahoney Group	\$ 46,391,290	-3.98%
55	InterWest Insurance Services Inc.	\$ 46,103,635	-11.62%
56	Horton Group Inc.	\$ 46,016,396	6.08%
57	William Gallagher Associates Insurance Brokers Inc.	\$ 45,713,028	-0.46%
58	Van Gilder Insurance Corp.	\$ 45,145,723	-5.36%
59	First Niagara Risk Management Inc.	\$ 44,597,548	-3.46%
60	DeWitt Stern Group Inc.	\$ 43,426,350	1.95%
61	INSURICA Insurance Management Network ¹⁰	\$ 42,840,489	12.61%
62	McQueary Henry Bowles Troy L.L.P.	\$ 41,850,000	8.83%
63	Riggs, Counselman, Michaels & Downes Inc.	\$ 41,687,190	2.23%
64	Graham Co.	\$ 40,170,504	-5.94%
65	Propel Insurance	\$ 39,690,000	17.17%
66	Assurance Agency Ltd.	\$ 39,211,000	12.48%
67	Rose & Kiernan Inc.	\$ 38,639,700 ³	-5.29%
68	Andreini & Co.	\$ 38,300,000	2.13%
69	Lawley Service Inc.	\$ 38,280,568	6.02%
70	Kinloch Holdings Inc.	\$ 38,115,000	-6.10%
71	Bowen, Miclette & Britt Inc.	\$ 37,836,400	4.24%
72	Old National Insurance ¹¹	\$ 37,380,041	5.67%
73	Ascension Insurance Inc.	\$ 36,958,000	N/A
74	Fred A. Moreton & Co.	\$ 34,652,000	4.18%
75	Loomis Co.	\$ 34,454,400	5.03%

2008 rank	Company	2008 revenue	% change
76	SullivanCurtisMonroe Insurance Services L.L.C.	\$ 34,250,000	-0.72%
77	Fringe Benefits Management Co.	\$ 33,856,630	2.78%
78	Payne Financial Group Inc.	\$ 33,345,856	7.87%
79	Scott Insurance	\$ 33,319,000	-0.34%
80	Frost Insurance Agency Inc.	\$ 33,306,629	6.72%
81	Roger Bouchard Insurance Inc.	\$ 32,896,580	-4.38%
82	Charles L. Crane Agency Co.	\$ 32,000,000	3.23%
83	SilverStone Group Inc.	\$ 31,692,000	9.19%
84	Dawson Cos.	\$ 31,422,897	3.46%
85	Parker, Smith & Feek Inc.	\$ 30,165,000	-0.17%
86	Sterling & Sterling Inc.	\$ 30,000,000	11.11%
87	Edgewood Partners Insurance Center	\$ 29,411,000	N/A
88	Lovitt & Touche Inc.	\$ 29,313,992	0.82%
89	Seitlin	\$ 29,216,626	-5.25%
90	Cobbs, Allen & Hall Inc.	\$ 28,881,019	-3.94%
91	M3 Insurance Solutions Inc.	\$ 28,165,600	14.74%
92	Starkweather & Shepley Insurance Brokerage Inc.	\$ 28,042,000	-2.21%
93	Risk Strategies Co.	\$ 27,994,500	13.69%
94	TrueNorth Cos. L.L.C.	\$ 27,951,000	-10.27%
95	PSA Financial Center & Affiliates	\$ 26,257,503	18.60%
96	Robertson Ryan & Associates Inc.	\$ 25,889,137	3.94%
97	Haylor, Freyer & Coon Inc.	\$ 25,812,270	0.44%
98	R.C. Knox & Co. Inc.	\$ 25,232,000	-0.58%
99	RJF Agencies Inc.	\$ 24,160,000	6.22%
100	Daniel & Henry Co.	\$23,706,000	1.20%

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

TOP BROKERS

RANK

3



Joe Plumeri,
chairman/CEO

WILLIS GROUP HOLDINGS LTD.

2008 GROSS REVENUES

\$3,451,000,000

↑
33.9%

2008 BROKERAGE REVENUES

\$3,362,000,000

↑
36.5%

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

The 2008 acquisition established Willis HRH Inc., now known as Willis North America, giving the London-based brokerage critical mass in certain segments and areas, said Don Bailey, chairman and chief executive officer of New York-based Willis North America.

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

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

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

On savings, Willis achieved \$23 million in synergies in the first quarter of 2009 and projects \$140 million in

savings by the end of 2010.

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

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

Analysts say Mr. Plumeri and his team deserve credit.

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

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

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

"We don't talk about whether you were from the HRH organization or the Willis organization. We've kind of stricken those words from our vocabulary," Mr. Bailey said.

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

On June 17, Fitch affirmed its negative outlook on the

brokerage, saying the softening insurance cycle and global economy could make it challenging for Willis to achieve all of the expected benefits of the HRH merger.

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

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

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

"That scenario that we had envisioned in June of 2008 obviously evolved to the point where we had to be a little more creative than what we had planned on being just four months earlier," Mr. Bailey said.

Still, in April, Willis sold Redondo Beach, Calif.-based wholesaler Bliss & Glennon Inc.—acquired as part of HRH—in a deal analysts attributed to the broker's need for cash. Willis leaders, who said the sale resulted in \$41 million in gross proceeds, said

the wholesaler did not fit into its long-term strategy of focusing on its retail business.

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

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

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

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

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

—By Zack Phillips

TOP BROKERS

RANK

4



David J. Zuercher,
chairman/president/
CEO

WELLS FARGO INSURANCE SERVICES INC.

2008 GROSS REVENUES

\$2,012,973,000



35.8%

2008 BROKERAGE REVENUES

\$1,743,062,000



36.0%

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

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

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

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

Since Wells Fargo combined with Norwest Corp. in 1998, the financial institution has taken in a string of banks and large insurance brokerages, including Acordia Inc., ABD Insurance & Financial Services

and, in late 2008, Wachovia, which had purchased Palmer & Cay Inc. in 2005. The acquisitions have given WFIS strength in numbers, providing greater capabilities in risk management as well as better service to clients and markets, Mr. Zuercher said.

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

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

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

lower-end risk management capabilities."

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

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

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

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

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

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

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

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

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

—By Jeff Casale

LARGEST BANK-OWNED BROKERS

COMPANY	PARENT	2008 BROKERAGE REVENUES
Wells Fargo Insurance Services Inc.	Wells Fargo & Co.	\$1,743,062,000 ¹
BB&T Insurance Services Inc.	BB&T Corp.	\$962,134,200
Regions Insurance Group Inc.	Regions Financial Corp.	\$110,612,815
BancorpSouth Insurance Services Inc.	BancorpSouth Inc.	\$93,066,992
Huntington Insurance Inc., dba Sky Insurance Inc.	Huntington Bancshares Inc.	\$63,992,000
TD Insurance Inc.	TD Bank Inc.	\$57,305,200 ²
BBVA Compass Insurance Agency Inc.	BBVA Compass Bancshares Inc.	\$55,692,781
Associated Financial Group L.L.C.	Associated Bancorp	\$55,281,833
Eastern Insurance Group L.L.C.	Eastern Bank Corp.	\$51,204,320
First Niagara Risk Management Inc.	First Niagara Financial Group	\$45,048,028

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

Source: BI survey

TOP BROKERS

RANK

5



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

ARTHUR J. GALLAGHER & CO.

2008 GROSS REVENUES

\$1,645,000,000

↑
1.3%

2008 BROKERAGE REVENUES

\$1,611,302,000

↑
5.8%

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

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

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

While acquisitions have long been a key element of Gallagher's strategy, particularly as it looks to strengthen positions in industry or geographic niches, Gallagher did a record 37 deals in 2008. Those acquisitions averaged \$5 million in revenue, Mr. Gallagher said. When Gallagher considers whether to buy a company, "due diligence

is literally 90%-plus (based) on cultural fit."

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

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

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

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

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

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

The deal included an initial

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

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

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

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

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

Among budget cuts are elimination of nonclient-related travel, cancellation of various meetings, and a cautious approach to filling vacancies. "Frankly, I think that's the prudent way to be right now," Mr. Gallagher said.

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

Given the economy and soft insurance market, Mr. Gallagher said he doesn't expect the need to control costs will end anytime soon.

"Certainly, it will be better and certainly the recession will end and there will be economic growth because that's the way of the world," he said. "But we're going to wait until we see it before we're changing anything in terms of this focus on costs."

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

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

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

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

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

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

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

—By Rodd Zolkos

TOP BROKERS

RANK

6



Dominic Burke,
group chief executive

JARDINE LLOYD THOMPSON GROUP P.L.C.

2008 GROSS REVENUES

\$1,032,900,865



12.3%

2008 BROKERAGE REVENUES

\$992,843,665



4.8%

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

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

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

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

In 2008, JLT's revenue grew 8% on consistent rates of exchange, with notable contributions from its commercial retail and reinsurance brokerage

operations, and employee benefits unit. Internationally, JLT saw good performances across Asia, Latin America, Canada and Australia, Mr. Burke said.

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

Revenues at JLT Reinsurance Brokers Ltd., the company's reinsurance and aviation brokerage unit, grew by 5.5% at constant rates of exchange in 2008 to £48.9 million (\$90.7 million).

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

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

JLT should benefit from any hardening in marine, aviation and energy, sectors where JLT has a strong presence, Ms. Parsons said.

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

There has been little evidence of a hard market in the first half of 2009, except in some specialty areas, he said. And in some areas where rates are increasing, such as catastrophe exposures in the Gulf of Mexico, many clients have chosen not to buy insurance

cover at all because it is not available inexpensively, Mr. Burke added.

Revenue growth from JLT's benefits business also is likely to be held back by the economy, said Mr. Burke.

JLT may face strong headwinds in growing revenues in 2009, but there are still mitigating factors, he said.

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

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

In its first year of operation, ICAP-JLT, the joint venture formed in 2007 with ICAP P.L.C. to establish an insurance-based derivatives and securities broking platform, brokered

some 60 transactions, representing some \$300 million in risk transfer.

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

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

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

—By Stuart Collins

LARGEST EUROPEAN COMMERCIAL RETAIL BROKERS*

Company	2008 commercial brokerage revenue
Aon Corp.	\$2,180,000,000
Marsh & McLennan Cos. Inc.	\$1,706,000,000
Willis Group Holdings Ltd.	\$643,000,000
Gras Savoye & Cie.	\$457,242,300 1
Jardine Lloyd Thompson Group P.L.C.	\$333,068,200 2
Verspieren	\$281,575,846 1
Funk Gruppe GmbH	\$139,897,000 1
Lockton Cos. L.L.C.	\$124,131,000
Siaci Saint Honore	\$119,280,600 1
HLG Holdings Ltd.	\$88,659,936 2

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

TOP BROKERS

RANK

7



J. Powell Brown,
president and CEO

BROWN & BROWN INC.

2008 GROSS REVENUES

\$977,553,213

↑
1.9%

2008 BROKERAGE REVENUES

\$965,982,617

↑
5.6%

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

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

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

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

"We faced lots of challenges, like a negative internal growth rate, which we never had before," he said. "The economy

in Florida went south pretty rapidly, and that had an impact on our profits in Florida." The younger Mr. Brown said Florida generated about 35% of the company's revenue last year, a drop from 38% in 2007. He said the drop was attributable to the fact that most of Brown & Brown's acquisitions were outside Florida.

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

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

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

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

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

Last year's performance allowed Brown & Brown to climb two spots to No. 7 on *Business Insurance's* ranking of

the world's largest brokerages. The rise reflected, among other things, inclusion of revenues generated by managing general agent activities in brokerage revenues, which *BI* did not include when determining 2007 rankings.

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

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

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

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

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

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

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

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

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

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

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

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

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

—By Mark A. Hofmann

TOP BROKERS

RANK

8



H. Wade Reece,
chairman and CEO

BB&T INSURANCE SERVICES INC.

2008 GROSS REVENUES

\$1,029,780,200

↑
5.7%

2008 BROKERAGE REVENUES

\$962,134,200

↑
9.7%

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

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

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

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

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

Organic growth remains a key

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

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

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

Mr. Reece cited San Diego-based UnionBanc Insurance Services Inc. as its "most significant" acquisition last year (BI, July 21, 2008). The purchase enabled BB&T Insurance Services to expand its retail operations in California—where wholesale unit CRC Insurance Services and large-account commercial broker McGriff, Seibels & Williams operate. Terms were not disclosed, but Mr. Reece said the UnionBanc operation will amount to roughly 5% of BB&T's 2009 revenue.

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

BB&T already has a large

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

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

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

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

BB&T does face challenges, however, primarily due to

market conditions.

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

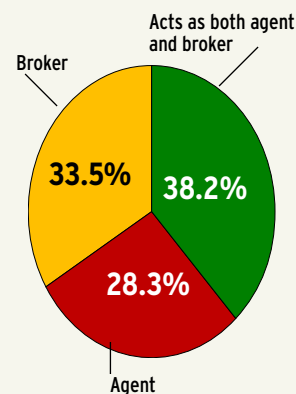
The broker also is keeping an eye on regulatory developments and watching health care reform very closely, due to its substantial portion of benefit business. Currently, the line comprises roughly 20% of its commercial broker revenue. Mr. Reece said "uncertainty" surrounding the issue is giving the broker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

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

—By Colleen McCarthy

AGENTS & BROKERS

Business type of all companies listed in the BI directory



Source: BI survey

TOP BROKERS

RANK

9



Patrick Lucas,
Chairman and CEO

GRAS SAVOYE & CIE

2008 GROSS REVENUES

\$797,560,160

↑
15.2%

2008 BROKERAGE REVENUES

\$786,368,400

↑
15.6%

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

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

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

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

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

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

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

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

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

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

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

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

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

Gras Savoye's employee count

rose slightly last year, increasing to 3,650.

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

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

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

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

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

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

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

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

"They have a network that is

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

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

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

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

Some coverages are indirectly tied to employers' revenue, he said. For example, companies may lay off workers in 2010, resulting in less need for benefit packages. Also, some policyholders may be unable to afford the same level of coverage in 2010, further reducing their insurance spend.

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

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

—By Michael Bradford

TOP BROKERS

RANK
10



David M. Lockton,
Chairman

LOCKTON COS. L.L.C.

**2008 GROSS
REVENUES**
\$786,845,000

↑
6.0%

**2008 BROKERAGE
REVENUES**
\$778,345,000

↑
6.9%

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

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

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

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

In addition, "we have remained relatively stable in terms of our associate count,"

said Chairman David M. Lockton. "We've avoided any kind of hiring freezes or curtailment of retirement benefits or layoffs of any significant nature."

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

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

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

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

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

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

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

Lockton's employee benefits revenue increased 14.9% to \$163.5 million in 2008. "The

Lockton Benefit Group has been a very significant part of our success over the last five, seven years, and we have every expectation that the broad spectrum of services that Lockton delivers to our clients in that business segment will continue," said Mr. Lumelleau.

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

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

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

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

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

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

On the international front, Lockton saw its number of employees in Europe drop to 750 in 2008 from 850 in 2007 as it integrated Alexander

Forbes International Risk Services, which Lockton bought in 2006.

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

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

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

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

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

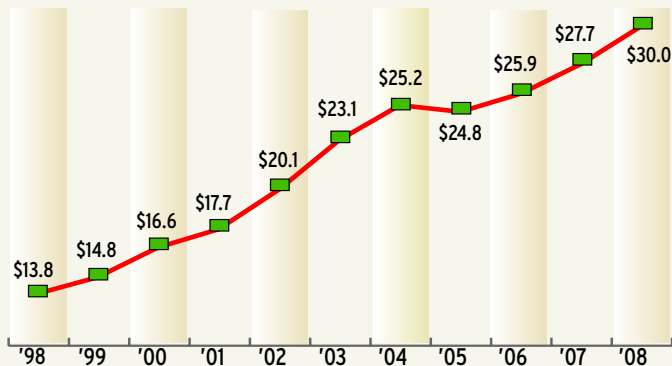
Lockton does not plan to make any more acquisitions and will focus on organic growth, said Mr. Lumelleau. Nor does it plan to go public.

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

—By Judy Greenwald

A DECADE OF GROWTH

As a group, the 10 largest brokers' revenues have risen in most of the last decade, in billions of dollars



Source: BI survey

LARGEST U.S. BENEFIT SPECIALISTS

Brokers deriving 50% or more of 2008 gross revenues from benefit business*

COMPANY	REVENUES FROM BENEFITS	% OF GROSS REVENUES
USI Holdings Corp.	\$318,848,000	50.1%
CBIZ Benefits & Insurance Services Inc.	\$98,800,000	53.5%
Trion Group Inc. dba Trion	\$67,700,000	100.0%
Fringe Benefits Management Co.	\$33,856,630	100.0%
Associated Financial Group L.L.C.	\$31,610,679	56.0%
SilverStone Group Inc.	\$20,737,000	64.3%
Loomis Co.	\$18,115,200	50.0%
Benefit Controls Cos.	\$17,000,000	100.0%
Thesco Benefits L.L.C.	\$16,537,798	96.0%
M3 Insurance Solutions Inc.	\$14,947,200	52.8%

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

Source: BI survey

LEADING U.S. RETAIL BROKERS

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

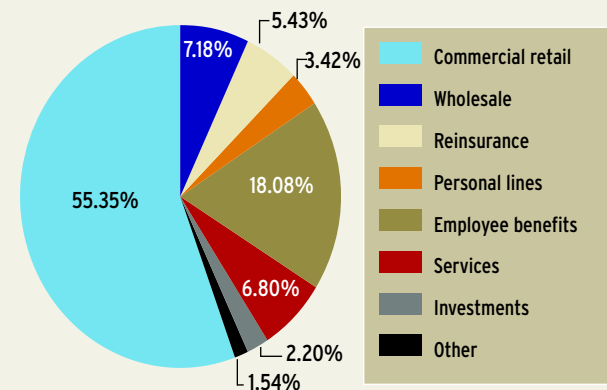
COMPANY	2008 REVENUES	% CHANGE
Marsh & McLennan Cos. Inc.	\$2,154,000,000	0.7%
Aon Corp.	\$1,606,000,000	-0.9%
Wells Fargo Insurance Services Inc.	\$1,214,322,000 ¹	34.4%
Willis Group Holdings Ltd.	\$1,140,000,000 ²	68.9%
Arthur J. Gallagher & Co.	\$584,707,000	-1.5%
Brown & Brown Inc.	\$553,108,199	5.0%
BB&T Insurance Services Inc.	\$533,667,600	11.9%
Lockton Cos. L.L.C.	\$380,527,000 ³	1.9%
Hub International Ltd.	\$319,550,000	10.5%
Alliant Insurance Services Inc.	\$217,810,500	10.1%
USI Holdings Corp.	\$186,882,000	-15.3%
Leavitt Group	\$113,536,000	3.6%
Frank Crystal & Co. Inc.	\$97,573,000	3.7%
John L. Wortham & Son L.P.	\$81,113,647	-2.5%
Allied North America	\$80,026,460	1.9%
Regions Insurance Group Inc.	\$79,750,815	14.5%
Thomas Rutherford Inc.	\$67,465,167 ⁴	6.5%
J. Smith Lanier & Co.	\$66,875,949	10.5%
Beecher Carlson Holdings Inc.	\$66,871,100	20.4%
Hylant Group Inc.	\$65,558,420	-0.1%

*Excludes revenue from the placement of employee benefits. 1 2008 revenues are pro forma including Wachovia Insurance Services Inc. purchased Dec. 2008. 2 2008 revenues are pro forma including Hilb Rogal & Hobbs Co. purchased Oct. 2008. 3 Fiscal year ending April 30. 4 Fiscal year ending June 30.

Source: BI survey

BUSINESS BREAKDOWN

Areas contributing to the largest brokers' overall revenue



Source: BI survey

LARGEST PRIVATELY OWNED BROKERS*

Ranked by brokerage revenues

COMPANY	2008 BROKERAGE REVENUES
Lockton Cos. L.L.C.	\$778,345,000 ¹
Leavitt Group	\$177,254,000
Keenan & Associates	\$133,778,000
Frank Crystal & Co. Inc.	\$126,250,000
Bollinger Inc.	\$103,767,372
Hays Group Inc., dba Hays Cos.	\$103,400,000
J. Smith Lanier & Co.	\$102,768,548
John L. Wortham & Son L.P.	\$99,359,848
Holmes Murphy & Associates Inc.	\$92,705,124
Hylant Group Inc.	\$90,501,577

* Brokerage firms that are not owned by banks or private equity firms.

¹ Fiscal year ending April 30.

Source: BI survey

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