Background on Insurance Intermediaries

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Insurance Intermediaries

A Competitive Market

The exact number of insurance agents and brokers operating in the U.S. is difficult to quantify because the type of licenses issued varies from state to state. While some states issue an all encompassing “producer” license, others issue separate “agent” and “broker” licenses and some draw distinctions among the services offered by individuals and issue licenses for each line of authority separately. According to the National Association of Insurance Commissioners (NAIC), in 2002 more than 3.8 million licenses had been issued to individuals to provide insurance services in the United States.[1]

These large numbers reflect the size and diversity of an insurance sector which includes producers, agents, brokers, solicitors, consultants, reinsurance intermediaries and others. The NAIC notes that the total number of resident producers may be less than 3.8 million because an individual may hold more than one license in a particular state. In 2002, the number of licensed resident producers increased by 2.7 percent to more than 1.9 million, while the number of licensed non-resident producers jumped by 14 percent to nearly 1.9 million.

Overall, the property/casualty insurance industry has historically been a highly competitive business, in terms of both the numbers of firms and the products, services and prices they offer. In 2003 there were more than 2,000 property/casualty insurers operating in the United States. Commercial insurance prices fell in nine of the past 12 years and are projected to fall once again in 2005 -- a direct reflection of the competition in the industry.

Varying points of view exist concerning technical and functional differences and similarities between brokers and agents. Some stress the distinction between a broker as a representative of a client and an agent as a representative of a company or of several companies. Brokers have a contractual responsibility to the client; agents are appointed by individual insurers to sell their products. However, others emphasize that both agents

[1] National Association of Insurance Commissioners (NAIC), *2002 Insurance Department Resources Report*, 2003.

and brokers function as intermediaries between customers who need to transfer risk and the insurers who agree to accept that risk. Many intermediary firms operate as brokers and agents, depending on their jurisdiction and the type of risk involved. Each evaluates risks in insurance terms for both customers and companies. Each are likely to be involved in any claims process. In practice, agents are often viewed by customers as their representative in dealings with their insurer, as are brokers. Regulations often refer to both as "producers". The fundamentals of insurance intermediation may appear simple in concept, but given the enormous diversity of kinds of insurance and kinds of risk in the world, the ways intermediation takes place as risk is transferred from organizations and individuals to insurers can take many forms.

Who Are Insurance Brokers?

The insurance brokerage business operates on a multinational level, and is an essential link in the global insurance community. The 10 largest global insurance brokers generated $23.1 billion in revenues in 2003, a 15 percent increase from $20 billion in 2002[2].

The U.S. insurance brokerage market is large, with about 74 percent of global brokerage revenues originating in the U.S. Brokers in the U.S. play a much more significant role in commercial lines than personal lines, holding a 69 percent market share of commercial lines, compared to a 34 percent market share of personal lines. The share of broker writers in the U.S. has been on the decline since 1998.

According to Swiss Re, in 2002 some 69 percent of traditional U.S. commercial lines business was brokered, compared to 75 percent back in the mid 1980's. However, the role of brokers is understated because the statistics do not include alternative risk transfer (ART) business, a large proportion of which is brokered. Banks are playing an increasing role in insurance distribution in the U.S. In 2002, banks owned 10 percent of the U.S. P&C broker market, according to Business Insurance (July 2003).

Over the last decade, the top end of the insurance brokerage industry has become more concentrated after a series of mergers and acquisitions in the sector. At the same time, the broker's role of placing and evaluating insurance risks has evolved somewhat in the direction of providing a broad range of value-added services.

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[2] *Business Insurance*, 33rd Annual Agent/Broker Profiles and Rankings, July 19, 2004.

Who Are Insurance Agents?

Insurance agents are licensed producers appointed by insurance companies to offer their products for sale. Personal lines insurers (i.e., sellers of private passenger auto and homeowners insurance) and commercial lines insurers (i.e., sellers of insurance for businesses) distribute their products in a variety of ways -- through their own agency force that sells only that company's products (i.e. captive agencies), through independent agents, through brokers, via direct sales channels such as the telephone, mail and internet, or various combinations of these channels.

In 2003, sales through "captive" or "exclusive" agents and direct marketeters (who sell on behalf of only one insurer) accounted for 66 percent of private passenger auto insurance sales and 69 percent of homeowners insurance sales. The remainder was sold through independent agents. According to the Independent Insurance Agents and Brokers of America (IIABA), there are currently 39,000 independent insurance agencies. In 2002, the average independent agency represented 7.0 personal lines insurers, 6.7 commercial lines insurers and 5.3 life and health carriers. The IIABA figures that it represents a network of over 300,000 agents, brokers, and employees who offer choices in all lines of insurance – home, auto, business, life, retirement, health, employee benefits and others.

Issues raised by recent events

On October 14, 2004, New York Attorney General Eliot Spitzer filed a civil suit in State Supreme Court in Manhattan, bringing charges of fraud and antitrust violations, alleging that in some instances clients were illegally steered to insurers that paid the highest commissions and rigged bids for insurance contracts were solicited. Several major insurance companies are also named in the lawsuit. Three insurance executives have pleaded guilty to criminal charges in connection. Other large brokers and major companies have been advised of investigations.

The investigation is now broadening into other areas of the insurance industry, including life, health, disability, and employee benefits. On November 12, Attorney General Spitzer filed a second civil suit in State Supreme Court in Manhattan, bringing charges of fraud against a life and disability insurance broker and alleging that business was steered to preferred insurers in exchange for payments and that service fees were inflated.

State-level investigations into broker compensation arrangements have also been initiated by Attorney generals and/or insurance regulators in a number of states. Additional civil lawsuits arising from the investigations are likely to be filed in the weeks to come. Criminal suits against any individuals found to have been involved in the alleged illegal activities may also follow. Companies also face the prospect of possible class action suits.

All companies involved have stated that they are cooperating fully in all investigations, which are being taken very seriously. There has been widespread condemnation by insurers and intermediaries of specific illegal activities such as bid-rigging. A fuller chronology of events is available at www.iii.org.

However, core issues have arisen over questions of whether the limited number of actual crimes that have been charged result from elements of the system of intermediary compensation or from the abuse of that system by a few that were in special positions to do so.

In order to understand and form views on these issues, it is necessary to have some knowledge of how intermediaries function and are compensated in the diverse and competitive world of insurance that covers everything from global enterprises to personal property.

What is The Role of The Insurance Intermediaries?

Brokers, and in many cases agents, search the market for coverage appropriate to their clients and place insurance risks on their behalf. As pointed out above, brokers and agents will often carry out similar functions, though agents will generally serve smaller commercial customers than brokers. Their knowledge of and access to the insurance marketplace should permit the selection among insurance products or risk management systems that are best suited to the buyer's needs and desires. While supportive of the traditional insurance system, brokers also encourage the development of nontraditional risk management products and services in order to give insurance buyers alternative methods of protecting their business assets. Essentially, brokers represent the insurance consumer in transactions with the insurance provider or underwriter. They also provide additional services, including research and development, actuarial and engineering services, claims and risk control services.

The ability of commercial insurance buyers to insure their businesses and business ventures depends in large measure on a broker's ability to find the appropriate coverage with the best terms and conditions at competitive fees. That in turn depends to a degree on the broker having sound, experienced and disclosed relationships with insurers. The broker needs to know about the financial strength of insurance companies, their history with different kinds of business and their claims handing experience.

Commercial insurance clients are typically professional insurance buyers who frequently handle multi-million or multi-billion dollar risks. They understand that the best priced coverage is not necessarily the best quality coverage, and that the cheapest may well not be in their best interest. Commercial insurance products are not commodities. They are customized risk transfer tools. Finding the appropriate coverage for large commercial clients can be a long and difficult process. For example, a major hospital, sports arena or educational institution might need insurance against as many as 165 different risks. A broker works with such a client to put together an insurance package that will work for this specific client. This may well involve more than one insurer, who will in turn probably transfer some of the risk to a reinsurer. As part of the process, brokers often identify the need for new types of insurance coverage and help underwriters design new insurance products. By their very nature, commercial brokers are insurance market innovators and risk consultants for their corporate clients[3].

Brokers also evaluate not just the insurance product, but the insurer, assessing whether a particular insurer is solvent, whether it provides good customer service, and how good is the insurer's claims-paying record. Brokers often specialize in particular sectors/industries and types of risks (i.e. construction, energy, telecommunications) and have expert knowledge of which markets (insurers) handle these types of risks. Sometimes certain lines of business have very few insurance carriers. Clearly there would be no benefit in presenting a risk to an insurer that either does not offer the coverage or has qualities that do not serve the client's needs. In this situation the relationship of the broker to the carrier is extremely important. A carrier is obviously

[3] *Commercial Insurance: The Basics of the Business*, The Council of Insurance Agents & Brokers (CIAB), 2000.

better off doing business with an intermediary it has come to trust over time to accurately represent the risks it is being asked to take on.

Brokers are also likely to be involved in the claims process, so it benefits the client if the broker and insurer have a good historic relationship. To cast or re-cast the relationship between the broker and insurer as strictly adversarial limits the broker's value to the client. Fundamentally, this is why brokers (and agents as well) are best described as "intermediaries".

Intermediary Compensation

Brokers and agents historically have been paid compensation for the services they provide in the form of commissions. Typically, intermediaries are paid commissions by the insurers and reinsurers with which they place business, but can also be compensated by fees. Commissions are generally determined as a percentage of the premium associated with the business placed, though flat-fee arrangements are not uncommon. There can be substantial variation in compensation rates depending on the line of business and other factors. In addition to or in lieu of commissions paid by carriers, brokers may be paid fees by their insurance-buying clients for representing them in the identification and placement of insurance and for other services such as special risk analysis.

There are also agreements that provide compensation to intermediaries over and above commission payments, most commonly referred to as "contingent commissions". These vary by carrier, type of business and other factors. Contingent commission arrangements are not new in the history of the insurance industry. Contingent commissions – based on business volume or profitability and possibly other factors – have been an established and legal industry practice for many years not just in the United States, but worldwide. They have been used in the U.S. for decades, and may have been present in the London market in the 1970s as a way of having the intermediary who placed the risks maintain a stake in the outcome over the life of the policy.

The existence of such arrangements is not only legal, but well known among corporate buyers of insurance and risk managers. According to the Risk and Insurance Management Society (RIMS), the trade association representing the interests of commercial customers, contingent payment arrangements are generally understood by them. In 1999, RIMS looked into these arrangements and concluded that they "are endemic to the manufacturer/distributor relationship, and there is nothing inherently wrong with them." As recently as April 2004, RIMS reaffirmed that position and said it was aware of no complaints or direct inquiries from its members about contingent commission arrangements.

It is important to note that the very few instances of alleged criminal conduct involve anti-competitive practices such as bid rigging and market manipulation, not contingent commissions per se. In reality, only in relatively rare instances does the highly competitive world of insurers and intermediaries have concentrations of market power that allow for such illegal abuse.

As previously noted, payments made to intermediaries under contingency commission agreements depend upon a variety of factors, such as volume of business, new business generated, existing business retained, and loss experience of business placed with an insurance carrier. It is important to recognize that fees are based on the overall relationship between brokers and carriers and specific services the broker provides. Among these services are:

- knowledge of the business to be written by the insurer and the needs and desires of clients
- efforts to provide detailed information to assist in underwriting and smooth submissions
- work to help research and develop new insurance and risk financing products
- collection of risk-specific or general information for the insurer to assist in marketplace competitiveness
- periodic feedback on quality, service and cooperation in the underwriting and client-service processes
- technical services related to claims, risk control, engineering and actuarial skills
- assistance in policy documentation
- analysis of the business submitted to the insurer for underwriting considerations
- assistance with claims settlement negotiations with insurers.

Properly structured contingent commissions are not linked to specific policies. Typically a broker or agent does not know if any contingent compensation will be paid, or the amount of that payment, until the underwriting year is closed and the success or lack thereof can be evaluated. The qualifications for such payments are generally based upon a whole book of business, so it is impossible to precisely determine the portion of a contingent commission that is attributable to a particular client or risk.

In a January 2004 report, J.P. Morgan estimates that contingent commissions accounted for more than 5 percent of brokerage revenues and nearly 20 percent of earnings year-to-date for the publicly traded U.S. brokers[4]. The table at the end of this report lists the percentage of 2003 total gross revenues from contingent commissions among the 100 largest brokers of U.S. business.

Advisen, a provider of insurance data resources, notes that a relatively new variation of commission arrangements were introduced in the 1990s. These are known by various names, including placement service agreements (PSAs) and later marketing service agreements (MSAs)[5]. Both are agreements between brokers and insurers that pay the broker additional commission income, typically based on premium volume. Advisen notes that PSA/MSA-type agreements principally are the purview of the largest brokers, while mid-size brokers are more likely to participate in the more traditional profit-based commission plans.

Following charges leveled against some firms by New York Attorney General Eliot Spitzer, concerns have been raised over whether volume-based payments could create a conflict of interest, especially if disclosure is inadequate. It is important to recognize that the existence of these fees does not relieve the broker of its contractual responsibility to its client—the buyer of insurance. And, as discussed below, volume and quality incentives for insurance intermediaries are consistent with the way sales efforts are compensated in virtually every area of business.

Traditionally, the majority of insurance brokerage revenues have been commission-based, but this is changing in some cases. During the decade-long soft market of the 1990s when premium rates declined significantly, brokers experienced intense pressure on their revenues. The impact of the soft market coupled with the enhanced resources gained through consolidation, led brokers to offer a wide range of new services, such as risk management, research and consulting. Increasingly, brokerage

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[4] Contingents May Be Smaller, But More Prominent in 2004, J.P. Morgan Securities Inc, January 13, 2004.
[5] Advisen Briefing: Placement Service Agreements: Big Brokers Under Fire, April 26, 2004.

revenues are based on fees for services rather than solely on commissions assessed as a percentage of the premium charged.

A diverse income stream can be desirable from the broker's perspective because revenues from fee-based services are not as sensitive to insurance premiums as are commissions on traditional brokerage services, allowing brokers to generate a more stable income. Large commercial buyers of insurance often negotiate fees because payments are fixed rather than variable, like commissions that vary as premiums rise or fall. Swiss Re estimates that today some brokers generate as much as one-quarter to one-third of their revenues from fees. [6]

In the immediate aftermath of reports on the investigations, several leading insurance brokers announced that they would eliminate contingent commissions. A few insurers have also announced that they will not be making contingent commission payments going forward. Others are examining their compensation structures, and have yet to determine whether they will seek to retain incentives tied to the overall financial success of their broker relationship. Few have spoken publicly.

Incentive compensation programs are an essential part of almost any business that relies upon sales, including insurance, real estate and auto dealerships. Incentive plans for sales personnel obviously reward the seller's performance. Properly constructed and conducted, they also encourage better performance and enhance competition, which in the case of insurance enables the consumer to enjoy more accurate pricing, terms and conditions. While brokers have long received compensation from different participants in the insurance transaction, agents are paid by the companies with which they place insurance. They are almost always paid a commission, but they also may participate in programs which pay them additional compensation for performance, such as placing larger amounts of business that result in good returns for the insurer as well as other factors.

Under such contingent compensation arrangements, the intermediary is rewarded for bringing certain business (such as accurately-priced, properly underwritten risks) to the insurer, retaining existing business, growing the business and having low losses on business placed. The agent often conducts a risk analysis and assessment, assuming the role of a frontline underwriter, as do brokers. In fact, the insurance company may well

[6] "Commercial insurance and reinsurance brokerage – love thy middleman," Swiss Re, *sigma,* No.2/2004.

have no direct dealings with the customer prior to the coverage being bound, or when a claim is paid. The company relies on the intermediary to identify the risk it is being asked to bear. The value of this risk management advice helps the insurance buyer to improve the potential loss situation within its business. As a result, the insurance buyer that performs well under the terms of an insurance contract (i.e., experiences fewer losses) is likely to be more attractive to the insurer and enjoy favorable pricing, terms and conditions.

It is not difficult to see how key links in the insurance chain could be negatively affected if such arrangements were to be eliminated completely and replaced with flat commissions/fees. The incentive for the intermediaries to bring accurately underwritten and priced business to the insurer would lessen. The potential for adverse selection would increase. Flat fees or fixed percentage commissions, unlike variable commissions, do not differentiate between the hundreds of thousands of individual and corporate policyholders who require insurance policies tailored to meet their unique needs and risk characteristics.

How Are Agents and Brokers Regulated?

Agents and brokers are licensed and regulated by the states and must be licensed in each state where they conduct business[7]. As noted at the outset, because each state maintains its own set of rules and regulations regarding licensing, brokers and agents navigate a system with varying requirements in order to conduct business regionally or nationally.

Under the 1999 Gramm-Leach-Bliley Financial Services Modernization Act (GLB), insurance activities – whether conducted by banks, broker-dealers or insurers – remain regulated by the states. While putting the U.S. financial services industry as a whole more on a par with that of other developed countries, the Act also moved insurance, including agents and brokers, toward an era of greater regulatory modernization.

Under GLB, if within three years (2002) a majority of states had not enacted uniform insurance agent licensing laws or reciprocity measures, a private national licensing organization would have been created. That entity, the National Association of

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[7] Ibid.

Registered Agents and Brokers would function as a self-regulating organization much like the National Association of Securities Dealers. However, as of August 2004, almost all the states had passed some type of licensing reform legislation.

Reinsurers (insurers of insurers) are less highly regulated than insurers. The purchasers of reinsurance, namely primary insurance companies that sell car, home and commercial insurance, are sophisticated buyers. Nevertheless, a professional reinsurer or reinsurance broker domiciled in the U.S. must meet statutory licensing requirements similar to those required of a primary company in the state in which it is applying for permission to do business. It also must meet solvency requirements, comply with general insurance laws and file the same annual statements and reports as a primary company. While the U.S. branches or subsidiaries of non U.S. reinsurers must meet the same regulatory requirements as domestic reinsurers, much business is actually written offshore. In 2002, non-U.S. and non-U.S. controlled reinsurance companies accounted for 77 percent of the U.S. reinsurance market.

Transparency and Disclosure

A general consensus exists that whatever the terms of the compensation system, transparency and disclosure are highly desirable. However, it is important to define carefully what is meant and how it is to be achieved. "Disclosure" seems like an obvious good for all. But what level of specificity is most useful and what form is it to take? For example, if disclosure comes to mean calculating, printing and distributing individual notices to small businesses, then clearly transaction costs will rise, and customers will pay more. Today, millions of smaller commercial policies are in force and there are tens of millions of personal policies. Additional paperwork requirements are clearly not trivial. They will have cost consequences for insurers and customers.

In the late 1990s, the Risk and Insurance Management Society (RIMS) and Marsh & McLennan Cos (MMC) agreed to a new disclosure policy that requires brokers to identify whether they have a contingent or similar agreement with an insurer if the client requests that information and make a reasonable estimate of the revenue generated. It is then the client's decision whether or not to buy a policy from the carrier that has the arrangement with the broker.

The Council of Insurance Agents & Brokers (CIAB) and Independent Insurance Agents and Brokers of America (IIABA) favor disclosure standards. They say disclosure is the best way to avoid conflicts or suggestions of conflict of interest. The New York Department of Insurance reviewed the practice in 1998 and issued a rule – contained in the New York Department of Insurance Circular Letter No. 22 – requiring the disclosure of such income if it is received in connection with a client's account.

To date, other than New York, there have been no consistent disclosure requirements related to broker compensation arrangements. However, a proposed federal regulatory reform statute introduced by Reps. Michael Oxley, R-OH, and Russell Baker, R-LA, called the State Modernization and Regulatory Transparency (SMART) Act, includes a provision that could apply to this issue. The discussion draft calls for states to develop and implement procedures on market conduct and standards and has a provision for the states to act in accord on issues related to producer licensing. Disclosures to customers, such as producer disclosures, could fall within the scope of this provision.

The National Association of Insurance Commissioners (NAIC) is in the process of developing a model that would introduce common requirements for brokers' disclosure of compensation.

Major industry groups are working towards the development of a more consistent framework for disclosure and transparency of broker compensation arrangements. While often no two parties in the insurance community are alike, and disagreements are not uncommon, there is widespread recognition of the need for a common approach on this issue. Industry regulatory modernization efforts at the state level have focused on creating greater uniformity, consistency and efficiency. At the federal level, the enactment of the 2002 Sarbanes-Oxley Act and the 1999 Gramm-Leach-Bliley Financial Services Modernization Act, also introduced common regulatory standards to what is a widely divergent financial services sector.

The CIAB has been on record as favoring full disclosure of all compensation arrangements since 1998. In October 2004, the IIABA adopted a policy stating that brokers should disclose the existence of placement service agreements to their clients, describe the nature of such compensation agreements and advise clients that they can discuss the matter further and request additional information. In August 2004, the Risk and Insurance Management Society (RIMS) said brokers should disclose the details of all compensation payments they receive from insurers, even if clients do not request the information. A statement said: "RIMS strongly supports the position that broker compensation and placement agreements should be transparent, with all sources of compensation, direct and indirect, disclosed without client request. This disclosure will ensure that the risk manager understands not only the cost of coverage, but any arrangements with specific insurance companies, or any fees obtained by the broker from markets approached on behalf of the insured." It went on to note that brokers are obligated to obtain the best coverage at the best price for clients and disclosure of agreements and relationships with insurers is an important part of the integrity of this relationship.

How is The Insurance Intermediary World Changing?

In today's fast-paced and complex world, more people and businesses need insurance to cover changing and expanding risk exposures. Spreading risk has taken on global significance. Insurance underwriters, agents, and brokers must be able to deliver increasingly sophisticated products and services faster and better.

Insurers, responding to market trends, are rethinking their traditional distribution methods and are increasingly using multiple distribution channels to sell their products. A number of companies that once used one distribution channel exclusively are now using a combination of different channels. Insurance buyers today, whether commercial businesses or individual consumers, have a range of options available to them for obtaining coverage quotes from different companies and agents.

However, insurance, particularly commercial insurance, remains a very specific business at heart. An important key to successful loss control lies in the broker-client relationship. Following the major consolidation within businesses in recent years, brokers and agents are more competitive than ever before. Demanding corporate clients want more from their brokers in terms of professionalism and global know-how. Technology has transformed the way agents do business. Both insurance agents and brokers are increasingly assuming the role of "infomediaries" – consultants and advisors who can assist their clients in navigating through cyberspace to attain the best insurance.

Agents and brokers provide value to consumers by offering a choice of both coverage and service. The added value they provide involves different choices made by different customers, whether it is based on the price of insurance, the financial strength of the insurer, the speed and quality of claims service, the breadth of coverage, or other factors. Given the different types and sizes of insurance buyers and the wide range of distribution channels available, it is apparent that one size rarely fits all in insurance – including its intermediary structure.

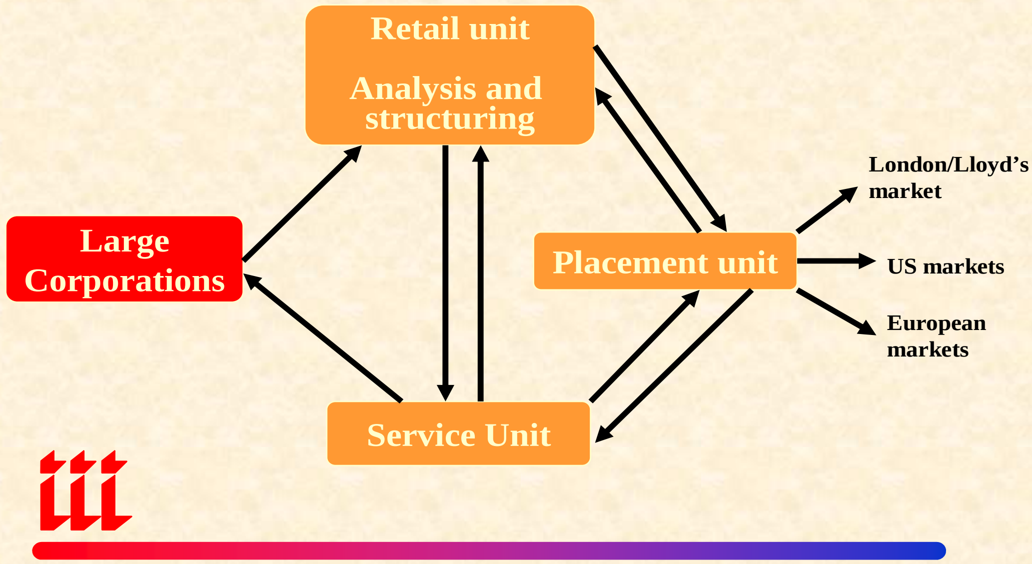
Top 10 U.S. Insurance Brokers and Revenues 2003 (generated by U.S. clients)

Rank	Company	2003 Revenues* ($ millions)
1	Marsh & McLennan Cos Inc	$5,250.6
2	Aon Corp.	3,232.5
3	Arthur J. Gallagher & Co.	1,082.2
4	Willis Group Holdings Ltd.	1,022.0
5	Wells Fargo & Co**	800.5
6	BB&T Insurance Services Inc.	604.7
7	Hilb, Rogal & Hobbs Co.	551.3
8	Brown & Brown Inc.	545.3
9	USI Holdings Corp.	352.3
10	Lockton Cos. Inc.	289.1***

* Companies that derive less than 20 percent of revenues from commercial retail brokerage are not ranked.
** Includes Acordia Inc. and Wells Fargo Insurance Inc.
*** Fiscal year ending 4/30.

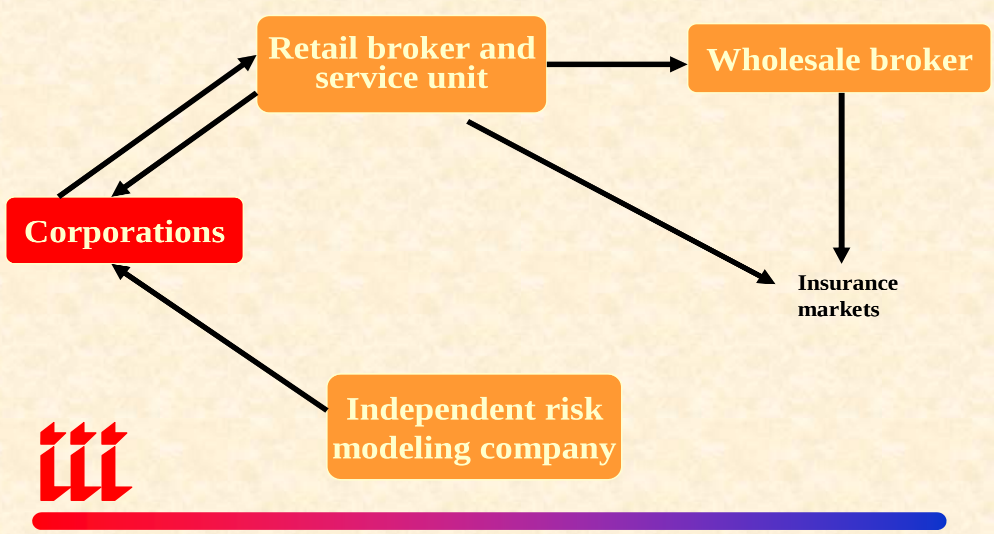
Source: *Business Insurance*, July 19, 2004.

The Global Broker Business Model

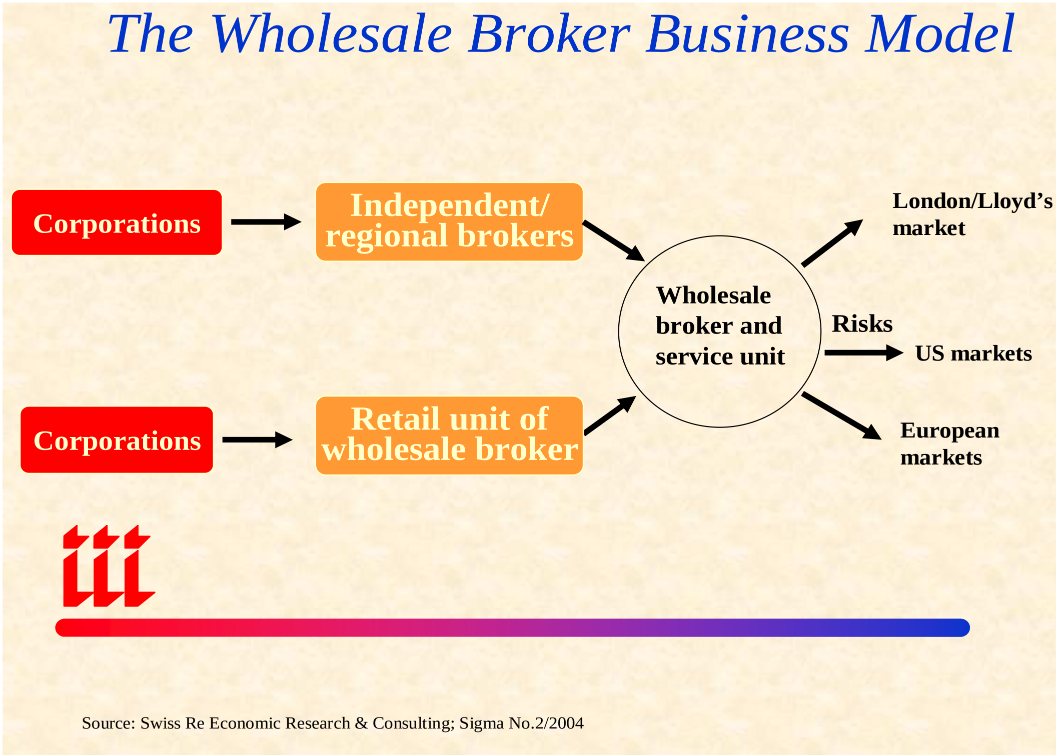


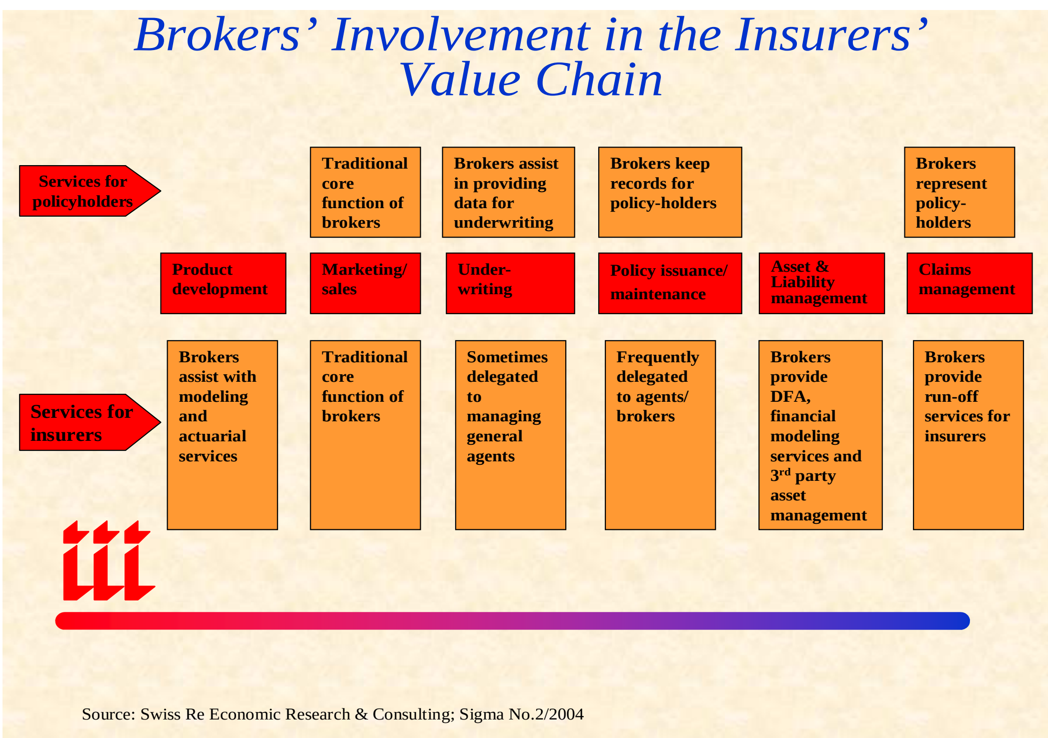
Source: Swiss Re Economic Research & Consulting; Sigma No.2/2004

The Regional or Niche Broker Model



Source: Swiss Re Economic Research & Consulting; Sigma No. 2/2004


The Wholesale Broker Business Model
Corporations
Independent/ regional brokers
Corporations
Retail unit of wholesale broker
Wholesale broker and service unit
Risks
London/Lloyd's market
US markets
European markets
Source: Swiss Re Economic Research & Consulting; Sigma No.2/2004


Brokers' Involvement in the Insurers' Value Chain
Services for policyholders
Traditional core function of brokers
Brokers assist in providing data for underwriting
Brokers keep records for policy-holders
Brokers represent policy-holders
Product development
Marketing/ sales
Under-writing
Policy issuance/ maintenance
Asset & Liability management
Claims management
Services for insurers
Brokers assist with modeling and actuarial services
Traditional core function of brokers
Sometimes delegated to managing general agents
Frequently delegated to agents/ brokers
Brokers provide DFA, financial modeling services and 3rd party asset management
Brokers provide run-off services for insurers
Source: Swiss Re Economic Research & Consulting; Sigma No.2/2004

CONTINGENT COMMISSIONS AMONG THE 100 LARGEST BROKERS OF U.S. BUSINESS

Percentage of total gross revenues from contingent commissions

Rank	Company	2003 total gross revenues	% from contingent commissions
1	Marsh & McLennan Cos. Inc.	$11,612,000,000	7.3%
2	Aon Corp.	9,752,000,000	2.0
3	Arthur J. Gallagher & Co.	1,304,500,000	3.0
4	Willis Group Holdings Ltd.	2,075,000,000	4.0 *
5	Wells Fargo & Co.	902,225,000	3.4
6	BB&T Insurance Services Inc.	626,023,000	NA
7	Hilb Rogal & Hobbs Co.	563,647,023	NA
8	Brown & Brown Inc.	551,040,513	6.0
9	USI Holdings Corp.	354,802,000	5.0
10	Lockton Cos. Inc.	301,000,000	4.0
11	Wachovia Insurance Services Inc.	191,656,510	7.2
12	Hub International Ltd.	286,359,000	6.0
13	Jardine Lloyd Thompson Group P.L.C.	728,808,600	NA
14	Alliant Resources Group Inc.	158,461,000	5.7
15	Palmer & Cay Inc. [1]	151,446,530	6.2
16	CBIZ Benefits & Insurance Services Inc.	168,061,161	4.0
17	ABD Insurance & Financial Services	120,662,000	3.0
18	Heath Lambert Group Ltd.	532,389,780	NA
19	Talbot Financial Corp. [2]	99,100,000	8.4
20	Frank Crystal & Co. Inc.	92,978,000	NA
21	Keenan & Associates	93,212,862	NA
22	Meadowbrook Insurance Group Inc.	87,400,000	1.0
23	John L. Wortham & Son L.P. [1]	83,174,000	3.0
24	Commerce Insurance Services Inc.	82,377,000	NA
25	Citizens Financial Group Inc.	80,725,000	4.1
26	Hylant Group	77,014,930	6.5
27	The Leavitt Group	77,650,000	4.7
28	The NIA Group L.L.C. [1]	73,560,000	6.0
29	Fleet Insurance Services	71,200,000	4.0
30	Bollinger Inc.	70,970,458	7.5
31	Brokerage Concepts Inc.	68,100,000	0.0
32	J. Smith Lanier & Co. [2]	63,657,553	7.0
33	Holmes Murphy & Associates Inc.	62,647,897	4.0
34	Summit Global Partners Inc.	70,135,307	8.1
35	UBOC Insurance Inc.	$63,250,000	7.0 %
36	Synaxis Group Inc.	59,359,000	3.6
37	Rebsamen Insurance Inc. [2]	57,930,889	2.0
38	Allied North America	56,900,000	NA
39	Mesirow Insurance Services Inc. [2]	54,236,000	10.0
40	Compass Insurance	53,200,000	4.9
41	The IMA Financial Group Inc. [1]	52,974,583	6.4
42	Guaranty Insurance Services Inc.	53,176,542	5.0
43	Tanenbaum-Harber Co. Inc.	50,874,000	4.6
44	Frenkel & Co. Inc. [1]	50,797,087	9.0
45	The Hays Group Inc. dba Hays Cos.	48,800,000	NA
46	Banknorth Insurance Group	47,256,000	11.0
47	Brooke Franchise Corp.	65,967,040	3.1
48	Heffernan Group	44,408,000	6.0
49	InterWest Insurance Services Inc.	42,558,418	8.0
50	Neace Lukens [1]	41,474,108	5.0
51	Insurance Office of America Inc.	41,170,241	7.0
52	Van Gilder Insurance Corp. [1]	41,309,000	12.0
53	Marshall & Sterling Enterprises Inc.	40,155,052	8.0
54	BancorpSouth Insurance Services Inc.	40,195,048	6.0
55	The Graham Co.	38,063,000	2.4
56	SullivanCurtisMonroe Insurance Brokers [2]	38,253,000	5.0
57	Woodruff-Sawyer & Co. [1]	39,250,000	7.0
58	The Rutherfoord Cos. [1]	38,515,295	NA
59	The Treiber Group	36,039,546	6.0
60	Barney & Barney L.L.C. [1]	35,350,000	NA
61	Jenkins Athens Insurance Services	35,590,000	3.6
62	Horton Insurance Agency Inc.	34,633,061	4.0
63	Cottingham & Butler Inc. [1]	34,114,500	2.5
64	Hibernia Insurance Agency L.L.C.	34,032,000	1.0
65	The James B. Oswald Co. [1]	34,179,000	5.8
66	William Gallagher Associates Insurance Brokers Inc.	34,771,967	10.0
67	The Mahoney Group [1]	34,263,407	5.1
68	Andreini & Co.	$32,000,000	4.2 %
69	McQueary Henry Bowles Troy L.L.P.	31,500,000	7.0
70	Van Beurden Insurance Services Inc.	39,205,000	1.0
71	Capacity Group of Cos.	30,079,114	NA
72	BWD Group L.L.C.	29,748,000	NA
73	Trion	30,500,000	NA
74	Frank F. Haack & Associates Inc. [1]	29,700,000	7.0
75	Riggs, Counselman, Michaels & Downes Inc. [1]	28,700,000	8.0
76	The Loomis Co.	28,940,000	1.0
77	Eastern Insurance Group L.L.C.	27,729,288	10.0
78	Bratrud Middleton Insurance Brokers Inc.	27,900,000	11.0
79	Lawley Services Inc.	27,421,402	8.3
80	R.C. Knox & Co. Inc.	27,147,000	NA
81	Bowen, Miclette & Britt Inc.	36,446,000	6.5
82	Roger Bouchard Insurance Inc.	27,343,800	3.5
83	The Daniel & Henry Co. [1]	25,182,000	6.1
84	Payne Financial Group Inc. [1]	25,089,804	9.0
85	Fringe Benefits Management Co.	24,260,738	NA
86	Higginbotham & Associates Inc.	24,561,035	5.4
87	Charles L. Crane Agency Co.	23,938,000	NA
88	Associated Financial Group L.L.C. dba CFG Insurance Services [2]	23,892,361	6.1
89	Seitlin [1]	24,200,216	6.0
90	Barlocker Insurance Services Inc.	23,896,000	11.0
91	Sterling & Sterling Inc. [2]	23,000,000	NA
92	Lovitt & Touche Inc.	23,078,690	NA
93	JMB Insurance Agency Inc.	23,300,000	4.5
94	Dawson Insurance Inc. [2]	24,082,228	5.5
95	Haylor, Freyer & Coon Inc.	25,000,000	8.4
96	T.J. Adams Group L.L.C. [1]	21,200,000	10.0
97	Parker, Smith & Feek Inc. [1]	21,371,200	6.3
98	Scott Insurance	21,350,000	4.8
99	North American Insurance Agency Inc. dba North American Group [1]	21,680,964	5.1
100	Fred A. Moreton & Co. [1]	21,110,000	4.7

Source: Business Insurance, 24 October, 2004; BI survey, company reports. * Willis estimate for 2004. N/A - not available or did not report data.

[1] An Assurex Global Partner. [2] A RiskProNet Partner.