040584

VILLAGE OF LOMBARD REQUEST FOR BOARD OF TRUSTEES ACTION

For Inclusion on Board Agenda

X	Resolution or Ordinance (Blue) Recommendations of Boards, Commission Other Business (Pink)	
TO:	PRESIDENT AND BOARD OF TRUST	EES
FROM:	William T. Lichter, Village Manager	
DATE:	November 22, 2004	(COW)(<u>B of T</u>) December 2, 2004
TITLE:	Finance Committee Recommendation on	2005 Insurance Program
SUBMITTED BY:	Leonard J. Flood, Director of Finance	
BACKGROUND/PO	LICY IMPLICATIONS:	
approval of the Villag staff and the Village's are attached. Village	fonday, November 22, 2004, the Finance Oge's 2005 Risk Management Program (Opt of Risk Management Consultant, Mike Nug Board approval of the Finance Committee contracts and agreements to assure that co	ion J in attached report) as presented by ent. The consultant's reports on the subject 's recommendation will allow staff to
Review (as necessary) Village Attorney X Finance Director X Village Manager X	Honard Hood	Date

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



November 19, 2004

Mr. Len Flood Village of Lombard 255 East Wilson Lombard, IL 60148

Re: 2005 Insurance Renewal

Dear Len:

The purpose of this letter is to provide a summary of and recommendation on the 2005 renewal terms. I have attached three spreadsheets that summarize all options. Gallagher has been able to offer several optional structures all with the same group of insurers.

Overall, without any structural changes (Column 3, line 9), renewal premium and fees are 4.7 % below projections provided several months ago and just under 1% less than the expiring. These figures have not been negotiated yet and should be considered the worst case. We expect final numbers to be available in a few more days and to be less than those presented here.

Optional Structural Changes

Option B

Option B discontinues the use of aggregate loss protection to the Village. It saves \$37,484. The Village has never come close to aggregate losses near the current attachment of \$1,250,000 (Line 22). The worst year in the past six years is 2001 at \$971,275 in losses, and \$105,000 of that total was paid by the specific excess insurer. I recommend deleting the aggregate loss fund protection. See Option J.

Option C

Option C increases the workers compensation self-insured retention from \$250,000 to \$300,000 (Line 18) and increases the Aggregate retention to \$1,285,000. We do not recommend this option since the aggregate protection is recommended against in Option B

2409 PEACHTREE LANE NORTHBROOK, IL 60062 (847)412-0410 FAX (847)412-0610

Page 2 Mr. Len Flood November 19, 2004

Option D

Option D increase the workers compensation retention from \$250,000 to \$350,000 and deletes the workers compensation aggregate protection, but leaves the other coverages aggregate protection in place. We do not recomend this option since the aggregate protection is recomend against in Option B

Option E

Option E is the same as the recommended Option B but with the higher workers compensation self-insured retention of \$350,000. In the past five years the Village has not had any claims in the corridor between the current retention of \$250,000 and \$350,000. The annual additional saving from this option is \$32,000. If the Village had a \$350,000 workers compensation claim in the next five years, and the insurance market was stable, it would still save \$60,000 over that time period by accepting this option.

There are other reasons to select this option. The excess workers compensation market is pressuring all insurers to move to retentions in this area. It is only a matter of time before the Village is forced to accept this, without any significant savings being offered.

We recommend Option E for the 2005 period. See Option J.

Option F & G

These options have aggregate protection and lower workers compensation self-insured retentions. They are not recommended.

Option H

Option has the lower workers compensation retention and is not recommended.

Option I

Option I has aggregate protection and is not recommended.

Page 3 Mr. Len Flood November 19, 2004

Option J

Option J increases the liability self-insured retention from \$50,000 to \$100,000. The Village averages \$33,000 per year in liability losses in the corridor between \$50,000 and \$100,000. There have been no losses in this corridor the past three years. Savings is \$53,000. We recommend Option J.

Summary

Accepting our recommendations saves the Village \$122,852. Although we do expect losses in these corridors from time to time, we expect the Village to save substantial amounts going forward. By getting rid of the aggregate protection and increasing the self-insured retentions, there are more insurers that will offer proposals on this structure in the future. We expect we will be able to issue an RFP in 2005 (for the 2006 renewal), which we hope will result in further premium reductions.

There are no coverage changes from the expiring proposal to the renewal options. The current excess liability insurer is replaced by St. Paul and Clarendon, each providing \$5,000,000 of coverage.

I look forward to discussing this with you on Monday.

Sincerely,

Mike Nugent Michael D. Nugent, ARM President

VILLAGE OF LOMBARD 2005 RENEWAL

ľ		ļ			1			,					
丁			-		2		3		4		τo		9
					į		2005		2002		2005		2005
			2004		2002		Actual		Option		Option		Option
	Line of Coverage/Service		Program	٦	Projections	No	o Changes		В		S		Q
	Property	ᡐ	54,352	↔	58,000	↔	48,076	क	48,076	()	48,076	₩	48,076
2	Liabillity	↔	267,742	ᡐ	277,000	↔	267,742	↔	230,258	↔	250,549	↔	230,259
<u>ო</u>	Excess Liability	↔	166,938	↔	174,000	()	164,783	↔	164,783	↔	164,783	↔	164,783
4	Boiler	↔	4,119	₩	5,000	↔	3,840	↔	3,840	↔	3,840	₩	3,840
വ	Crime	↔	12,249	↔	12,000	↔	12,568	₩	12,568	↔	12,568	↔	12,568
9	TPA	↔	16,766	↔	18,000	↔	18,373	↔	18,373	()	18,373	υ	18,373
_	Broker Fee	↔	32,340	↔	33,000	↔	33,957	↔	33,957	↔	33,957	₩	33,957
8	Consulting	છ	15,000	क	15,000	ઝ	15,000	क	15,000	ઝ	15,000	क	15,000
<u> </u>	Premium/Rees	ග	509,500	Œ	600,4000	છ	EST. SEO	3	526,835	છ	8.00°,00°,00°	ල	526,856
9	Losses	↔	200,000	↔	200,000	₩	200,000	↔	200,000	ક્ક	200,000	<u>မ</u> ာ	200,000
Ξ	Estimated Cost - P&C	ઝ	769,506	ક્ર	792,000	ક	764,339	છ	726,855	မာ	L	ιco	726,856
입	Workers Compensation	↔	32,839	↔	30,000	↔	33,962	↔	33,962	↔	33,962	s	33,962
<u>က</u>	TPA	မှ	25,150	↔	26,000	ઝ	23,530	↔	23,530	છ	_	↔	23,530
<i>SS</i>	Promlum/Ress-We	හ	<i>52</i> 7,533	Œ	55,000	\mathcal{S}	<i>7637/14</i> 3	E	<i>7657129</i>	છ	8 <i>7667112</i> 9	ග	7657°/126
15	Est.Retained Losses	\$	400,000	↔	400,000	↔	400,000	\$	400,000	₩	400,000	S	400,000
9	Estimted WC Cost	₩	457,989	\$	456,000	↔	457,492	\$	457,492	()	457,492	₩	457,492
17	Total Estimated Cost	S	1,227,495	લ્ક	1,248,000	69	1,221,831	\$	1,184,347	₩.	1,204,638	43	1,184,348
18	WC SIR	\$	250,000	₩	350,000	မှာ	250,000	\$	250,000	₩	300,000	S S	350,000
6	Property SIR	↔	50,000	₩	50,000	↔	50,000	↔	50,000	↔	50,000	G	50,000
20	Liability SIR	↔	50,000	↔	50,000	↔	50,000	မှ	50,000	↔	50,000	↔	50,000
72	Auto Physical Damage	↔	50,000	↔	50,000	ઝ	50,000	᠕	50,000	ᡐ	50,000	₩	50,000
22	All Lines Aggregate	↔	1,250,000	↔	1,300,000	↔	1,250,000	: ↔		↔	1,285,000	မ	375,000
23	WC Aggregate Only		NA		NA		NA	↔	•		S Y	₩	ı

Property Property	Ш			7		8		6		10		11		12
Librality \$ 2004 \$ 2005 Option Property \$ 267,742 \$ 200,000 \$ 44,076 \$ 164,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 166,783 \$ 1										2002		2002		2005
Line of Coverage/Service Program Projections Actual E F 6 Property \$ 54,352 \$ 58,000 \$ 48,076 \$ 48,076 \$ 48,076 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 220,018 \$ 200,018 \$ 200,018 \$ 200,000 \$ 200,000 \$ 12,568				2004		2005		2002		Option		Option	_	Option
Property		Line of Coverage/Service	"	Program	٩	rojections		Actual		E		4		5
Liability \$ 267,742 \$ 277,000 \$ 267,742 \$ 220,018 \$ 20,018	-	Property	₩	54,352	₩	58,000	ઝ	48,076	မှာ	48,076	₩	48,076	ઝ	48,076
Excess Liability \$ 166,938 \$ 174,000 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 164,783 \$ 12,568	α	Liability	₩	267,742	↔	277,000	↔	267,742	↔	198,130	↔	220,018	₩	202,825
Boiler \$ 4,119 \$ 5,000 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 3,840 \$ 12,568 \$ 12,548 \$ 12,249 \$ 12,000 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 18,373 \$ 18,373 \$ 18,373 \$ 18,373 \$ 18,373 \$ 18,373 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,568 \$ 12,668 <th>က</th> <th>Excess Liability</th> <th>↔</th> <th>166,938</th> <th>↔</th> <th>174,000</th> <th>↔</th> <th>164,783</th> <th>↔</th> <th>164,783</th> <th>⇔</th> <th>164,783</th> <th>↔</th> <th>164,783</th>	က	Excess Liability	↔	166,938	↔	174,000	↔	164,783	↔	164,783	⇔	164,783	↔	164,783
Crime \$ 12,249 \$ 12,040 \$ 12,568 \$ 12,668 \$ 12,669 \$ 12,669 \$ 12,669 \$ 12,669 \$ 12,669 \$ 12,669 \$ 12,669 <t< th=""><th>4</th><th>Boiler</th><th>₩</th><th>4,119</th><th>↔</th><th>5,000</th><th>↔</th><th>3,840</th><th>()</th><th>3,840</th><th>↔</th><th>3,840</th><th>↔</th><th>3,840</th></t<>	4	Boiler	₩	4,119	↔	5,000	↔	3,840	()	3,840	↔	3,840	↔	3,840
TPA	2	Crime	₩	12,249	↔	12,000	↔	12,568	↔	12,568	↔	12,568	₩	12,568
Broker Fee \$ 32,340 \$ 33,000 \$ 33,957 \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 33,957 \$ \$ 15,000 \$ <th>9</th> <th>TPA</th> <th>₩</th> <th>16,766</th> <th>↔</th> <th>18,000</th> <th>↔</th> <th>18,373</th> <th>↔</th> <th>18,373</th> <th>()</th> <th>18,373</th> <th>↔</th> <th>18,373</th>	9	TPA	₩	16,766	↔	18,000	↔	18,373	↔	18,373	()	18,373	↔	18,373
Consulting \$ 15,000	7	Broker Fee	↔	32,340	↔	33,000	ᡐ	33,957	↔	33,957	↔	33,957	ઝ	33,957
Picamitum/Fees	æ	Consulting	₩	15,000	क	15,000	co	15,000	↔	15,000	\$	15,000	↔	15,000
Losses \$ 200,000 \$	<u></u>	Premium/rees	ග	05/695	©	000/269	Ø	664,580	3	12612 (565)	හ	କୀରଣୀଟ	છ	766 (1666) 1
Estimated Cost - P&C	1 0	Losses	⇔		↔	200,000	↔	200,000	↔	200,000	\$	200,000	s	200,000
Workers Compensation \$ 22,839 \$ 20,000 \$ 23,530 \$ 23,57,692 \$ 23,50,692 \$ 23,50,692 \$ 23,50,692 \$ 23,50,692 \$ 23,50,692 <th>77</th> <th>Estimated Cost – P&C</th> <th>₩</th> <th>769,506</th> <th>₩</th> <th>792,000</th> <th>↔</th> <th>764,339</th> <th>\$</th> <th>694,727</th> <th>₩</th> <th>716,615</th> <th>₩</th> <th>699,422</th>	77	Estimated Cost – P&C	₩	769,506	₩	792,000	↔	764,339	\$	694,727	₩	716,615	₩	699,422
Workers Compensation \$ 32,839 \$ 30,000 \$ 33,962 \$ 33,062 \$ 33,062 \$ 33,062 \$ 33,062 \$ 33,062 \$ 34,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000 \$ 32,000<	90													
Premittin/FeesaWG	2	Workers Compensation	↔	32,839	↔	30,000	↔	33,962	↔	33,962	↔	33,962	↔	33,962
Piemitum/Fess-WG	13	ТРА	₩		₩,	26,000	s	23,530	↔	23,530	↔	23,530	↔	23,530
Est.Retained Losses \$ 400,000 \$ 400,000 \$ 400,000 \$ 400,000 \$ 400,000 \$ 400,000 \$ 400,000 \$ 400,000 \$ 457,492	83	Premium/ress - WG	©		⊛	55,000	ග	90,40S	Ø	<i>7637129</i>	${\mathfrak S}$	<i>76746</i> 5	3	<i>7637/12</i> 9
Estimted WC Cost \$ 457,989 \$ 456,000 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 457,492 \$ 45,400 \$ 457,492 \$ 45,400 \$ 457,492 \$ 45,400 \$ 457,492 \$ 45,400 \$ 457,407 \$ 41,424,407 \$ 41,422,403 \$ 41,224,831 \$ 41,224,900 \$ 41,22	15	Est.Retained Losses	↔		↔	400,000	↔	400,000	₩	400,000	ક્ક	400,000	မ	400,000
VC SIR \$ 1,227,495 \$ 1,248,000 \$ 1,221,831 \$ 1,152,219 \$ 1,174,107 \$ 1,7 WC SIR \$ 250,000 \$ 350,000 \$ 250,000 \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000 \$ 100,000 </th <th>16</th> <th>Estimted WC Cost</th> <th>↔</th> <th>ŀ</th> <th>↔</th> <th>456,000</th> <th>↔</th> <th>457,492</th> <th>↔</th> <th>457,492</th> <th>နှာ</th> <th>457,492</th> <th>↔</th> <th>457,492</th>	16	Estimted WC Cost	↔	ŀ	↔	456,000	↔	457,492	↔	457,492	နှာ	457,492	↔	457,492
WC SIR \$ 250,000 \$ 350,000 \$ 250,000 \$	17	Total Estimated Cost	€\$		€∌	1,248,000	S	1,221,831	ક	1,152,219	ક્ર	1,174,107	S	1,156,914
Property SIR \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000 \$ 100,000	18	WC SIR	↔	250,000	↔	350,000	↔	250,000	ഗ .	350,000	s	250,000	\$	300,000
Liability SIR \$ 50,000 \$ 50,000 \$ 50,000 \$ 100,000 \$	19	Property SIR	↔	50,000	↔	50,000	₩	50,000	↔	50,000	↔	20,000	₩	50,000
Auto Physical Damage \$ 50,000 \$ 50,000 \$ 50,000 \$ 1,250,000 \$ 1,250,000 \$ 1,375,000 \$ 1,4250,000 \$ 1,4250,000 \$ 1,4250,000 \$ 1,4250,000 \$ 1,4250,000 \$ 1,44 WC Aggregate Only NA NA NA NA NA	20	Liability SIR	ᡐ	50,000	↔	50,000	↔	50,000	↔	50,000	↔	100,000	↔	100,000
All Lines Aggregate \$ 1,250,000 \$ 1,375,000 \$ 1,375,000 WC Aggregate Only NA NA NA NA	2	Auto Physical Damage	↔	50,000	↔	50,000	↔	50,000	↔	50,000	↔	50,000	↔	50,000
WC Aggregate Only NA NA NA NA	22	All Lines Aggregate	↔	1,250,000	↔	1,300,000	↔	1,250,000	↔		↔	1,375,000	: • \$	1,410,000
	23	WC Aggregate Only		NA		NA		NA	↔	ı		NA		¥

.

\$. 5 .

			13		14		15		16		17		18
		ļ	i						2005		2005		2005
			2004		2005		2005		Ontion		Ontion		zuco Jation
	Line of Coverage/Service	_	Program	ď	Projections		Actual		E H				
Ļ.	Property	ઝ	54,352	ઝ	58,000	↔	48,076	₩	48,076	8	48.076	69	48.076
Q	Liability	↔	267,742	↔	277,000	ઝ	267,742	↔	177,088	တ	182,455	↔	144,890
ო	Excess Liability	↔	166,938	↔	174,000	↔	164,783	↔	164,783	ં ઇન્	164,783	မှ	164,783
4	Boiler	↔	4,119	↔	5,000	↔	3,840	↔	3,840	↔	3,840	↔	3,840
ಬ	Crime	ઝ	12,249	↔	12,000	↔	12,568	↔	12,568	↔	12,568	↔	12,568
9	TPA	↔	16,766	↔	18,000	↔	18,373	↔	18,373	ᡐ	18,373	↔	18,373
_	Broker Fee	ᡐ	32,340	ᡐ	33,000	↔	33,957	↔	33,957	κ	33,957	↔	33,957
ω	Consulting	↔	15,000	↔	15,000	\$	15,000	क	15,000	↔	15,000	↔	15,000
0	Premium/Fees	S	<u> </u>	හ	0000fz39	S	534,533	ග	<i>47</i> 6,635	တ	47/0,052	ග	441,487
유	Losses	\$	200,000	છ	200,000	\$	200,000	↔	200,000	ઝ	200,000	↔	200,000
Ξ	Estimated Cost - P&C	ઝ	769,506	क	792,000	\$	764,339	₩	673,685	မ	679,052	υ	641,487
72	Workers Compensation	↔	32,839	↔	30,000	↔	33,962	क	33,962	ઝ	33,962	₩	33,962
13	ТРА	₩	25,150	₩	26,000	ઝ	23,530	↔	23,530	ᡐ	23,530	69	23,530
8	Premium/ress - WG	ග	<i>52</i> /255	Ø	<i>EG,000</i>	8	<i>763712</i> 9	${\mathfrak S}$	<i>26079119</i>	ଓ	<i>E6742</i> 5	හ	267/16
15	Est.Retained Losses	↔	400,000	ઝ	400,000	\$	400,000	↔	400,000	မှ	400,000	₩	400,000
16	Estimted WC Cost	₩	457,989	မှာ	456,000	↔	457,492	ઝ	457,492	မ	457,492	မှာ	457,492
17	Total Estimated Cost	€3	1,227,495	€9-	1,248,000	S	1,221,831	\$	1,131,177	\$	1,136,544	ŧs,	1,098,979
18	WC SIR	↔	250,000	↔	350,000	\$	250,000	ᢒ	250,000	↔	350,000	₩	350,000
19	Property SIR	↔	50,000	↔	50,000	↔	50,000	↔	50,000	↔	50,000	↔	50,000
20	Liability SIR	↔	50,000	↔	50,000	↔	20,000	↔	100,000	↔	100,000	မ	100,000
ᅜ	Auto Physical Damage	↔	50,000	↔	50,000	↔	50,000	↔	50,000	↔	50,000	₩	50,000
22	All Lines Aggregate	↔	1,250,000	↔	1,300,000	ઝ	1,250,000	↔		()	500,000	↔	
23	WC Aggregate Only	↔	-	ઝ	•	\$	1	↔	•	↔	. 1		

CONTINGENT COMMISSIONS

New York Attorney General Eliot Spitzer filed a civil lawsuit in New York in October against the world's largest insurance broker, Marsh (Marsh & McLennan, MMC) alleging several inappropriate business practices.

A contingent commission arrangement is an arrangement in which an insurer pays a broker or agent a percentage of premium based on volume of premium or profitability of an entire book of business placed by that agent / broker with the insurer. This commission is in addition to the commission or fee the client pays to the agent / broker for placement of the client's coverage.

Contingent commission arrangements exist in virtually every insurance agency and brokerage house in the USA, if not the world.

The five largest insurance brokers in the world collected over 1.2 billion in contingent commission revenue in 1993. Marsh had the biggest share at \$847,000,000.

Spitzer alleged that these contingent commissions are an industry name for a "kickback" and should be outlawed. They are currently legal in all states. He also alleged bid rigging charges that grew out of Marsh's desire to maximize its contingent commission revenue at the expense of the client.

The genesis of contingent commissions is not clear. Some brokers maintain that they started as a result of a shift of some services from the insurers to the brokers. Outsiders suspect that insurers first introduced them as an incentive to secure more of a brokers business. In either case, they weren't much of a concern until several events changed the contingent commission landscape.

The 1990's saw significant consolidation in the insurance brokerage ranks. Marsh, the world largest insurance broker bought the third largest broker, Johnson & Higgins, and the fourth largest broker, Sedgwick. Aon, the second largest broker bought Frank B. Hall (Fifth largest) and a large European broker. Arthur J. Gallagher went from the eighth largest broker to the fourth largest broker because of the consolidation. The two largest brokers, Marsh and Aon had become 800 pound guerillas. Outsiders were concerned that they had too much market clout and could dictate too much to insurers.

In the late 1990's, Marsh established it global broking centers, requiring all branches to have business flow thru three centers that would deal directly with insurers. Marsh Global Broking began to consolidate business with key insurers. Those insurers were required to pay Marsh above market contingent commissions.

Until 1998, most insurance buyers were not aware of the practice. The Risk and Insurance Management Society (RIMS) asked the US brokers to cease the practice citing potential conflicts of interest. Marsh and Aon refused and instead, offered to provide details of the fees to clients upon request. State insurance departments did not pick up on the issue and have not investigated the practice until recently, and only now because they have been embarrassed by the Spitzer action.

Marsh eventually fired its chairman and several key players in the bid rigging allegation. They are currently negotiating a settlement with Spitzer's office. Marsh is also facing several shareholders suits, client suits and class action suits and their future is unclear. Marsh has discontinued the use of contingent commission agreements effective Sept 30, 2004. Aon has done the same. Aon maintains they should not be tarnished by the New York action. Their argument is:

1. Their contingency arrangements only account for \$200,000,000, versus Marsh's \$800,000,000, and have the lowest percentage of the 100 largest brokers.

It is still a conflict of interest, and is still more than 98 of the largest 100 brokers contingent revenue

2. They are a long standing and legal practice in the industry

That does not make it right.

3. Even though premium volume based, they represent revenue for services performed for the insurers

We have heard this one before and find it hard to believe. It is a reward for bringing more business, plain and simple.

4. The field branches and individuals do not know details of the arrangements, so no conflict exists.

Certain brokers at that level favor certain insurers. Care to guess why? This statement is hard to believe. Everyone at Marsh knew who was on the preferred insurer list and why. Are the other large brokers different? No, in fact most try to emulate Marsh!

5. This is only political opportunism by Spitzer, who is alleging running for Governor next term.

It may be, but it is about time someone did something about this.

6. It is not unlike any other incentive paid to a sales force for increasing sales volume.

Except that insurance brokers hold themselves out as independent of the insurer and professional counselors providing unbiased advice.

Aon indicates that they discontinued contingent arrangements "in the way they are currently set up". They will likely charge insurers fees for service and disclose these to clients.

Willis (3rd largest) has announced they will discontinue contingent commission arrangements, as has Gallagher. Gallagher has actually indicated they will cease all "retail contingent arrangements". Note that Gallagher has quite a large wholesale operation both in the US and in London, that a substantial number of their clients use, and appears not subject to this decision.

The remaining 96 largest insurance brokers have been awfully quiet. Several have indicated no intention of ending these arrangements because of the effect on their financial position.

What should you do?

- 1. Pressure your current broker to discontinue the practice
- 2. Require stricter disclosures on this and similar arrangements
- 3. Request confirmation that no bid rigging has occurred on your account in the past.
- Consider only doing business with those brokers that discontinue the practice, and monitor their operations going forward for other similar practices.
- 5. Only pay fees for service, no commission in any form to any firm or its subsidiaries.

Nugent Consulting Group will be doing the above for its retainer clients.

Nugent Consulting does not receive any revenue from any source other than direct fees from our clients. We do not accept revenue of any sort from any insurance broker, insurance company, wholesaler, intermediary, third party administrator or managed care provider.