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Startup brokers attracting clients in wake of probes

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New brokers formed in the wake of New York Attorney General Eliot Spitzer's investigation into the insurance industry say they are attracting business in part because of the bureaucracy that is now bogging down many of the established players.

These brokers say procedures introduced in response to the investigation have led to a raft of red tape for risk managers, who are now attracted to their leaner organizations.

However, officials of major brokerages say risk managers recognize these additional procedures are for their own protection.

Brian Daly, president and chief executive officer of Giles US Insurance Brokers L.L.C, the Northbrook, Ill.-based U.S. arm of Scotland's Giles Insurance Brokers, said the brokerage has drawn its clients from both regional and national brokers' middle-market divisions since opening earlier this year. "The national brokers are still facing tremendous issues resulting from the Spitzer investigation," he said.

"Many of them have, in fact, put in place processes and procedures that have somewhat stifled the sales process for many of the key salespeople" in reaction to the Spitzer investigation, Mr. Daly said. "They have to go through so many processes, from what I understand, in terms of getting clients to sign off on every single piece of the sales and renewal process, which they didn't have to do before."

Neil Krauter, chairman and chief executive officer of New York-based Krauter & Co., said the brokerage has drawn its 300 clients in the 18 months since it opened "mostly from the larger brokerage firms and the alphabet houses."

"I think clients are disappointed with the inwardly focused viewpoint of their current brokerage firms of the larger houses," said Mr. Krauter. "They're more focused on themselves, and telling clients now how they will service, or can service, their pieces of business as opposed to being able to react as to how the client needs to be serviced," he said.

"I mean, there are certain brokerage firms now (where) clients have to sign a form before that brokerage firm can tell one market what another market quoted. They have to sign another form to allow the incumbent to have the last look. That doesn't really allow for a great deal of flexibility and working in the client's best interest and on a timely basis," said Mr. Krauter.

The administrative aspects of the settlement are burdensome to clients, said Peter F. Garvey, president of New York-based Integro Ltd., which was founded last year.

"It also draws a lot of resources from within the legacy brokers" at a time when they are shrinking their workforce and pursuing profitability, said Mr. Garvey. "These new administrative requirements are labor intensive."

Major brokers, though, say their clients are not unhappy with the additional procedures, and they have not

lost business because of them.

Mario P. Vitale, New York-based chief executive officer of Willis North America, said, "Some of those precautions the major brokers are taking today" are for clients' protection. Risk mangers can say, "Are you trying to tell me, Mr. Startup, that you don't have those protections for us?" said Mr. Vitale.

"I think it's a great sales pitch that the startups are using, but the reality of the situation is they are taking very little market share" and sophisticated risk mangers know they need transparency, Mr. Vitale said.

Brian M. Storms, chairman and chief executive officer of New York-based Marsh Inc., said, "Obviously, the world has changed post-Eliot Spitzer, and the world of transparency and openness is the way the industry is doing business today."

However, he added, "We've yet to find a sophisticated client...that somehow views the process that they need to go through in the transparent world we're in as a detriment. I'm unaware of any firm taking clients away" because of this issue.

Marsh officials say, while there has been an increase in request- for-proposal activity, it has not hurt its business. Marsh President Bill Malloy said, "To the extent a competitor wins a piece of business from us, sure, that happens from time to time, and it's always happened, and I'm not sure that's a movement, if you will, on an industry level that would qualify as a trend."

Meanwhile, Steve Denton, COO of Atlanta-based Beecher Carlson Holdings Inc., which became a large-account brokerage in 2004, says his company's success with clients is not attributable to problems at the major brokerages.

Client wins have come because "we're putting them in a better position to analyze their risk with better analytical information around their loss portfolios, and I think that people find that approach very refreshing," Mr. Denton said.

Among areas the company is focused on are health care including hospitals, long-term care and physician's medical malpractice; construction; energy, primarily among independent power producers; and telecommunications.

"We're looking to be a \$200 million revenue company within the next three or four years," Mr. Denton said.

Mr. Daly said Giles is "focusing on commercial property for the middle market and upper middle markets," mainly in the United States. It places all property/casualty lines, including specialty lines, said Mr. Daly. He said he expects U.S. revenues of \$100 million with in the next five to 10 years.

Mr. Krauter said his brokerage's clients range from major companies "down through the middle market. We do all lines of business, including employee benefits. There really isn't very much that we don't do." He said he eventually expects annual revenues of "over eight figures."

Mr. Garvey said Integro has been particularly strong in its health care, property and D&O practices in the nine months it has been working with clients. He said he anticipates the firm will generate \$400 to \$500 million in revenues in five years' time.

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