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Power Broker


How a Top Marsh Employee Turned the Tables on Insurers

**Mr. Gilman Helped Devise Way
To Collect Big Payments
From Likes of Giant AIG**

'They Would Laugh at Us'

By **MONICA LANGLEY** and **IANTHE JEANNE DUGAN**
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In the 1990s, William Gilman, a star broker at **Marsh & McLennan Cos.**, helped pioneer a fee arrangement with big insurance clients that propelled the world's largest insurance broker to new levels of profitability, associates say. Now, that arrangement has plunged Marsh into scandal.

Mr. Gilman was the driving force at an insurance-brokerage unit that had become a powerhouse for Marsh, colleagues say, generating a significant portion of Marsh's income with a relatively small staff -- just 1,200 of more than 43,000 employees world-wide.

Mr. Gilman, a 61-year-old managing director at Marsh and executive marketing director of Marsh Global Broking, is at the center of the broad investigation into corruption in the insurance industry, according to government officials familiar with the probe. On Tuesday, he was suspended along with three other employees by Marsh, which is battling civil charges by the New York attorney general that it cheated corporate clients by rigging bids and collecting big fees from major insurance companies for throwing business their way.

Mr. Gilman didn't return repeated calls for comment. His lawyer, Robert Cleary, declined to comment on either the case or the suspension. Marsh declined to discuss the reasons for the suspension or any aspect of Mr. Gilman's career at the firm.

Mr. Gilman handled big accounts for clients including International Business Machines Corp., according to former Marsh executives. These executives say he placed as much as \$500 million a year in premiums with insurance companies, generating millions of dollars in revenue for Marsh. Says Thomas Tehan, a former

senior vice president in Marsh's brokerage unit: "He was an excellent negotiator and people trusted him implicitly."

RISKY BUSINESS

- [Page One: Marsh Considers Having CEO Step Aside](#)¹
- [Read the complaint](#)² filed against Marsh & McLennan. ([Adobe Acrobat](#)³ required.)
- [See a reader's guide](#)⁴ breaking down the allegations and insurance-industry lingo being tossed around in Spitzer's case.

It's still unclear whether senior Marsh executives were involved in any alleged wrongdoing. Though Mr. Gilman hasn't been charged, he has been prominently mentioned in court papers filed last week by New York Attorney General Eliot Spitzer.

In the papers, filed in a New York state court, Mr. Spitzer alleged that Mr. Gilman advised insurance companies to go along in a **bid-rigging** scheme at the heart of the probe -- or see business dry up. The court papers allege that Mr. Gilman

kept insurance carriers in line with a program to extract fees from them in return for directing business their way.

A handwritten internal memorandum from an executive with insurance giant American International Group Inc., included as an exhibit to the Spitzer complaint, said: "Per W. Gilman -- Get to right number or 'we'll kill you.' "

Mr. Gilman helped to orchestrate the system at the heart of the scandal -- channeling business to insurance companies that paid the biggest commissions to Marsh, rather than to insurers willing to provide the lowest quotes, according to more than two dozen current and past employees of Marsh and insurance firms.

He did this, Marsh and other industry executives say, by helping to advance a new arrangement that expanded upon the decades-old practice of insurance companies paying "contingent commissions" to brokers such as Marsh.

Here's how it works. Insurance companies pay brokers standard commissions, which represent a percentage of insurance premiums. But the companies also pay brokers commissions that are "contingent" on other factors -- mainly the profitability of the business the brokers generate, the volume of business and their success renewing the contracts. These contingent commissions have been around since the 1970s.

In the early 1990s, with brokers under pressure at Marsh to drum up more profits, Mr. Gilman seized an opportunity for Marsh to receive more than the standard "contingent commissions" insurers paid to send profitable business their way, these colleagues say.

In working with clients such as AIG he helped advance a new arrangement -- dubbed a PSA for "placement service agreement" -- that required the big insurer to pay Marsh fees based on volume of business alone, according to current and former Marsh executives.

Why would AIG, known for zealousness in cutting costs, agree to fork over more money to Marsh? The global insurer at the time wanted to expand its U.S. property-casualty underwriting business, according to a former Marsh manager. AIG declined to comment.

AIG accepted the new fee arrangement, as it underwrote more and more business. As time went on, AIG

went along "kicking and screaming," according to an industry executive. (AIG would later ask the New York insurance regulator to look into the agreements.)

It was these commissions that were at the heart of Mr. Spitzer's investigation into the insurance industry this year before allegations of bid rigging surfaced last week. And it was this commission structure that gave Marsh an incentive to direct business to insurers paying it the most-generous fees, not those with the best price or terms, Mr. Spitzer alleges in his suit.

Regulators view PSAs as potentially more harmful than the original contingency commissions because this emphasis on volume could give incentive to brokers to direct clients to insurance firms that wouldn't necessarily offer the best price.

Once other Marsh brokers and managers saw the profit potential of the new pacts, they attempted to impose PSAs throughout the company, several former Marsh employees say. They centralized the effort by establishing Marsh's Global Broking unit, current and former employees say. This unit directed the PSA fee plan and served as the clearinghouse of dealings between Marsh and its insurance clients in several practice areas, including midsize companies that buy property and casualty insurance.

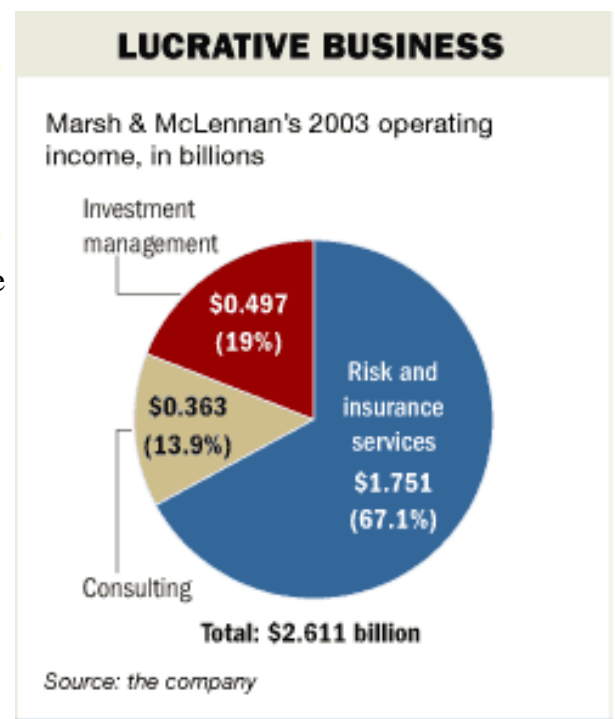
Before, Marsh's business was funneled to insurance firms by a patchwork of regional Marsh brokers usually dealing with low-level insurance underwriters. With each broker placing just a handful of deals with the underwriters, they lacked clout. "If we said, we're going to pull our business, they would laugh at us," one former broker says.

The centralized placement system was designed to benefit clients, a Marsh official says. "Our strategy was to bring together specialists who were the best negotiators with deep expertise by type of risk and by industry to get the best results for our clients."

Thus, the Global Broking unit channeled hundreds of contracts to the insurers, dealing with senior executives. This gave them vast power to call the shots with huge insurers.

Marsh received \$845 million in contingent commissions in 2003, out of \$11.6 billion in revenue last year, according to a regulatory filing this week. But because there's relatively little overhead, a major portion of those commissions flow directly to the bottom line and represent a significant chunk of Marsh's 2003 net income of \$1.5 billion, Mr. Spitzer says. (The firm has said it will suspend these commissions in the wake of the Spitzer suit.)

Global Broking became a jewel at Marsh. Housed at Marsh's headquarters near Rockefeller Center in midtown Manhattan, it boasted a vast room resembling the trading floor of a large Wall Street firm, with wall clocks showing all the world's time zones and people working the phones in a sea of adjoined desks.



In a video presentation circulated to Marsh's employees, Robert Newhouse, Marsh's former chairman of U.S. operations, said Global Broking's purpose was to maximize revenues and that all Marsh employees and field agents were to abide by the Global Broking system, according to documents filed in a civil suit last week in a New York federal court against Marsh and other firms. Mr. Newhouse didn't return phone calls.

As the Global Broking system kicked in, Marsh's prominence and profitability soared, making it more difficult each year to beat the prior year's results. "We had to do our very best to hit our numbers," says Robert Amoroso, former manager of Marsh's Philadelphia branch. "Each year, our goals were more aggressive."

The pressure for more profits came from the top. Roger Egan, president and chief operating officer of the Marsh brokerage unit, told his management team: "Each time I see Jeff, I feel like I have a bull's eye on my forehead," referring to Marsh & McLennan CEO Jeffrey Greenberg, according to a former Marsh brokerage employee.

Mr. Greenberg couldn't be reached for comment. A Marsh representative said Mr. Egan didn't say that.

As Mr. Gilman's power grew inside Marsh, some colleagues say they overlooked his eccentricities. He defied the starch-shirt culture at the firm, sometimes showing up at management meetings, even in winter, in shorts and flip-flops. Mr. Tehan, the former Marsh senior vice president, recalls attending a high-level meeting in New York and "Bill came in barefoot." A neighbor near his home in Allenhurst, a few hundred feet from the ocean on the New Jersey shore, calls him "Shoeless Billy."

Mr. Gilman was referred to inside Marsh as "Champagne Bill" for charging to the company tab outings at a strip club and Manhattan's tony Petrossian caviar restaurant, according to former Marsh executives. Marsh eventually took away his corporate credit card, the former Marsh colleagues say.

By the mid-1990s, Marsh's Global Broking unit was going strong, adding more lines of coverage to be handled in New York, although Mr. Gilman's excess-casualty division was the first and most successful unit in execution, according to a Marsh official. Under the burgeoning system, Marsh wouldn't depend on its brokers across the country to negotiate with the insurers or generate those fees in an inconsistent way.

Underwriters at AIG and elsewhere suddenly were in the throes of "bare-knuckle, high-pressure tactics" from Marsh, according to an insurance executive. "Marsh's consolidation put maximum power in one place."

Much of that power emanated from Mr. Gilman's office, colleagues say. His and others' changes weren't tough only on outsiders, former employees say. Some Marsh employees, particularly in branches, say they began complaining about losing access to insurance-company underwriters.

Clients began to feel out of touch with their underwriters, according to an ex-Marsh branch manager. Instead, quote packages were delivered from New York, the current and former employees say.

To stem the complaints, some current and former Marsh employees say, Marsh's management periodically doled out chunks of revenue from the PSAs to the branches -- which showed up on monthly profit-and-loss statements. "I got back my P&L and nearly a million dollars was added to the bottom line," a former Marsh branch executive says. "It was pure profit and it was on a new line called PSA."

A Marsh official confirms that some PSA revenue eventually was passed to the branches.

Gradually the branches accepted the Global Broking system with its perks. "The money was like heroin," says a former Marsh branch employee. "Once you got the taste of it, you were hooked."

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