WILLIS GROUP HOLDINGS

HOW WE GET PAID

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INTRODUCTION

The purpose of this paper is to provide an overview of the ways that Willis currently gets remunerated for the value we deliver. The majority of this paper is focused on Willis policies in the retail insurance broking sector. However we also include a brief commentary on reinsurance and wholesale practices towards the end.

Broker Remuneration is a complex topic and constantly evolves. Therefore it is almost impossible to cover all eventualities in a document such as this. However it is important to set out as clearly as we can the principles that apply within Willis in respect of our retail insurance broking businesses.

Inevitably, in a global business, regional variations exist. While it is difficult to outline all these variations here, details of our remuneration policies and how they are disclosed to our clients are also set out in the Client Engagement Agreements, Terms of Business Agreements, and Standard Terms and Conditions provided to each of your clients based on their specific circumstances. This is in line with our policy of complete transparency.

Willis' remuneration principles are twofold:

- To avoid any conflict with putting the clients' best interests first
- Transparency of its remuneration to the client.

Throughout all our dealings, our objective is to ensure that our clients achieve the most cost effective and appropriate solutions and also to ensure they fully understand how we are compensated for delivering them.

Our principle sources of revenue are:

- Original commission which is a fixed percentage of the premium quoted by an insurer.
- Fees negotiated with individual clients.

It is also important for Willis to be clear about what remuneration it is not prepared to accept. Historically, the brokerage industry received contingent commissions on the portfolios of business that they placed with carriers. Willis' definition of contingent commissions is remuneration paid by insurers to brokers that is in addition to a broker's normal earnings from upfront commissions and fees. Contingent commissions are conditional payments, typically calculated at the end of a calendar year and may come from the following:

- Set thresholds of premium volume being hit:
- Achieving a prescribed level of new or renewal business;
- The underwriting profit performance of a book of business or account.

Willis voluntarily gave up receiving contingent commissions in its retail insurance brokerage units in 2004. Despite Willis' objections, many insurance carriers have imposed volume-based compensation in certain parts of the US employee benefits business. To continue to serve its clients in this business, Willis has no viable option but to accept this compensation, which it fully discloses, in medical lines only. Contingent commission agreements that Willis inherited with the acquisition of HRH expire in 2011. Willis may accept contingent compensation when it serves as an intermediary to another insurance producer.

Willis' commitment to transparency includes telling a client in straightforward and complete terms all of the relevant facts related to hiring or retaining the company. These terms include:

- Whether Willis is working for a client as a broker, or whether we are representing the insurer as an agent;
- Exactly how Willis is being paid for a particular service or product;
- Disclosing whether we have an ownership interest in – or other incentives that could lead us to recommend – a particular insurer or product.

Clients deserve to know this information up front.

As described in more detail below, in some limited and disclosed instances Willis serves, in one form or another, as an agent of the insurance carrier and may accept additional payment from them. It is important our clients fully understand why and when we accept market derived income.

Again, it is important to emphasize that there are significant variations between the applicability of these revenues to various regions and/or business segments and if in doubt a client should refer to their Client Engagement Agreement or terms of Business Agreement or direct any questions to their Willis Client Advocate.®

WILLIS SOURCES OF MARKET-DERIVED INCOME

BROKERAGE ON FEE BUSINESS

In some territories outside of North America, Willis obtains brokerage on business where our client pays us a fee. Our intention is to seek remuneration for work that Willis carries out for all parties in the insurance transaction but for which Willis is not otherwise sufficiently compensated. Some examples of this are the vastly-increased cost of regulation, distribution and infrastructure costs. This brokerage that Willis receives is a set percentage and is not contingent on achieving any level of growth, retention or profit on the business concerned. The amount is fully disclosed to clients and Willis will only keep such brokerage if the client agrees.

SUBSCRIPTION MARKET BROKERAGE

Willis is implementing a program to add Subscription Market Brokerage in some of its core specialty businesses placing business into the subscription markets, predominantly placed in London. The principles underlying this Subscription Market Brokerage program include the following:

- Willis is required to handle increased infrastructure costs such as those arising from presentations to and negotiations with multiple entities in the subscription market.
- Willis performs additional administrative, regulatory, accounting and support functions in order to complete subscription market placements. These functions benefit our clients and insurers.

- Working groups of underwriters in the subscription market recognize these additional costs and agree that a negotiated percentage of the premium to account for these costs is appropriate and helps assure competitive access to that market.

- Willis believes that the best way to defray the cost of these functions is through this brokerage.

Subscription Market Brokerage is fully disclosed to our retail insurance brokerage clients. This subscription market brokerage has no relevance to our activities in our North American Retail Business.

FACILITY ADMINISTRATION CHARGES AND PROFIT COMMISSIONS

We operate a number of 'facilities' (Binders, Lineslips, Programs, MGAs and Schemes) under which we undertake a number of tasks. Some of those tasks are purely for the benefit of the client, others are services that an insurer would be expected to perform. Another set of activities – such as sales, marketing, product development, accounting and settlement, statistical analysis and projection and claims – benefit all parties in the insurance transaction and are part of Willis' infrastructure costs.

Willis' remuneration may reflect this multi-beneficiary approach with what is known as a facility administration charge that covers the cost of these activities. A facility administration charge is additional to the fee or brokerage that Willis receives and is fully disclosed to our retail insurance broking clients.

These facilities typically apply to straightforward, small business lines or specialist product areas, for example, commercial combined, motor, personal lines, personal accident and terrorism.

The type of business written in these facilities tends to be high-volume, low-premium business that would not be viable for insurers to write individually on the open market. By grouping this business together, clients enjoy the benefits of a broad product, suited to their needs and the cost savings of collective buying power.

In a very limited number of cases a portion of our remuneration may be driven by the underwriting profitability of the facility. The potential for us to earn such 'profit commissions' is, again, explained to our retail insurance broking clients, but, because this business is grouped together, it is not possible to determine the extent to which the profitability of a book is affected by any single client.

MARKET SECURITY

In some instances, Willis provides market security advice and analytical work to a number of carriers as a separate stand-alone consultancy service under a specific agreement or, in other cases, as part of our reinsurance relationship where the cost is absorbed as part of the overall fee.

SURVEY / ENGINEERING SERVICES

Outside of North America, Willis employs a number of engineers that specialty carriers can access, for a fee, for risk surveys. We fully disclose this activity to clients.

PREMIUM CREDIT FEES

If a client wants to pay their premium in installments, they can either use their own bank or a premium finance company with which Willis partners. If they choose the premium finance company, Willis may receive fees/commission from that supplier if their services are engaged.

SERVICE LEVEL AGREEMENTS (SLAS)

Certain International Willis offices are remunerated by way of SLAs with local carriers. These SLAs are for non-client specific services and include examples such as provision of management information and premium collection services.

WILLIS QUALITY INDEX

The Willis Quality Index (WQI) is Willis' unique benchmarking tool for its clients and carriers that employs both qualitative and quantitative data to rank insurers on their performance in underwriting, policy administration, claims performance and service. While the WQI service is offered free-of-charge to clients and carriers, Willis also offers an expanded service for additional fees that provides carriers with a more detailed analysis of data related to their own performance. The purpose of this expanded service is to advise carriers where they perform well and in which areas their service needs improvement.

STRATEGIC CARRIER INITIATIVE

In 2009, Willis launched its Strategic Carrier Initiative (SCI) that is designed to develop a greater understanding of clients' needs and a greater mutual understanding of the broker's and carrier's business requirements, enabling both parties to work more effectively with each other for the benefit of our clients.

Among the services provided to insurers in the SCI program are projects to eliminate inefficiencies to improve client service, for example streamlining accounting and settlement and other electronic trading initiatives.

To deliver these services to its SCI partners, Willis has created a central team to help manage the smooth functioning of these relationships. Strategic carriers contribute to the cost of this program to reflect the work and additional resources that Willis invests in the initiative. Willis has explicitly agreed with carriers involved in the SCI that the fee associated with the initiative itself is not linked to, or contingent upon, the generation of additional business, retention or profit.

CONSULTANCY AND ADVICE

Increasingly, we are asked by Insurers for advice on the development of their business and sometimes on transactions that may be attractive to them. This activity is carried out separately from our mainstream Insurance Broking activities and our remuneration negotiated specifically on a transaction by transaction basis

WHOLESALE BROKING

All the above relates to policies in respect of our retail insurance broking business. We are also engaged in wholesale activities. By definition our remuneration policy in this segment is more difficult to articulate because;

- In some wholesale businesses, like our Willis Networks business in the United Kingdom, for example, our client is a third party broker who uses Willis to access regional, global or specialist markets. We have no direct relationship with the ultimate retail client; our duty is to the third party broker and we cannot be responsible for their interaction with the retail client.

- In other cases, Willis uses third party wholesale brokers to access specific markets. In this case we do not know the remuneration relationship between the third party wholesale broker and the specific markets. However, we are fully transparent with our original client regarding the remuneration arrangements we have with the third party broker.

In both of these circumstances, our relationship on a wholesale basis is with other professional market counter-parties in the insurance sector and our remuneration is negotiated with them on a case-by-case basis.

REINSURANCE BROKING

In reinsurance our major sources of revenue are exactly the same as the major revenue sources in retail insurance:

- Original commission which is a fixed percentage of the premium quoted by an insurer.

- Fees negotiated with individual clients.

Our clients in this segment are predominantly insurance and reinsurance companies and therefore professional entities in the insurance sector.

CONCLUSION

As previously mentioned, this paper is intended to provide a broad perspective on the sources of our income. Inevitably, there are likely to be circumstances not covered by the above. Our policy is, however, to ensure that our policies reinforce that our clients' best interests are always first and foremost, and to consistently ensure that our clients fully understand how we are remunerated on their business.