



To Hylant Group Clients and Associates October 21, 2004

Eliot Spitzer, the Attorney General of the State of New York, filed a civil complaint against Marsh, Inc., the world's largest insurance broker last week. The overriding premise of the complaint was that Marsh had breached its fiduciary responsibility to its clients to enrich itself, please see http://www.oag.state.ny.us/press/2004/oct/oct14a_04.html

Following is technical information relative to insurance carriers' compensation agreements that are identified in the complaint and covered in the national and local press over that past several days. We have also provided information on Hylant Group's business practices to contrast.

- The complaint and press appear to consider "**placement service agreements - (PSA's)**" and "**contingent profit sharing agreements**" as the same arrangements. There is a *fundamental difference* between the two agreements. **PSA's** are employed for the benefit of the broker as a pre-placement agreement for additional revenue based purely on volume to a carrier. These **PSA** arrangements have typically been employed by larger brokers to facilitate the "centralized" or "global brokering centers" established in the major metropolitan areas several years ago. **Contingent profit sharing agreements** are based on the total performance of the book that is placed with that company. While these agreements vary from company to company, the contingent compensation agreements generally factor in growth, profitability (loss ratio) and premium retention. These payouts are not guaranteed and are valued retrospectively over 1, 2 or 3 years.
- **Contingent profit sharing agreements** have been part of the industry business model for years. Similar incentive agreements support business platforms in almost every aspect of the distribution stream of commerce in the US and around the world. These are intended to build long-term profitable business that grows the carriers' target classes of business. When executed properly, these are intended to align all the parties' interest.

What should be considered in this situation is the alleged fraudulent activity that certain parties chose to practice to maximize the payout under the **PSA** agreements by steering placements to certain carriers based solely on those agreements. This to us is a matter of business ethics and the heart of the issue.
- Hylant Group does not, nor have we ever had **PSA** agreements with any carriers. Furthermore, our account marketing model is decentralized; as opposed to using "global brokering centers" or "centralized" marketing. Marketing of accounts takes place in our local offices at the direction of individual Account Executives with the support from the servicing team and corporate resources as needed.

- Hylant Group places insurance with approximately 195 different insurance carriers and wholesale brokers. Of that group, we have contingent profit sharing agreements with 35, of which none are PSA's. There are no agreements with AIG, ACE or Munich-American. We have referenced the existence of contingent profit sharing agreements on our website since 1999 at www.hylant.com . With the exception of certain benefit placements, it is critical to note that our Account Executives and support staff do not know or have access to any of the details of contingent profit sharing agreements. As such, they have no inducement to make placements other than in our client's best interest.

We can only speak for the Hylant Group. We put our customers' interest first and do not engage in illegal practices. Our relationship with our customers is built on trust; which in turn builds the most important asset we have, our reputation! We will always conduct ourselves to the highest ethical standards keeping the best interest of you, our client, at heart in all our business practices.

Should you wish to discuss this further, please feel free to contact your Account Executive.

Regards,
Patrick R. Hylant, CPCU
Chairman & Chief Executive Officer