



in insight

COTTINGHAM & BUTLER – 2010/11

ANNUAL REPORT



JOHN BUTLER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

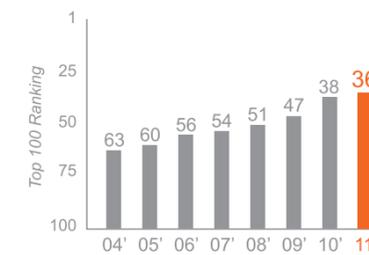
DAVID BECKER
PRESIDENT AND CHIEF OPERATING OFFICER

in•sight [in-sahyt] -noun

The capacity to discern the true nature of a situation.

“A point of view can be a dangerous luxury when substituted for insight and understanding.”

- Marshall McLuhan



In 2011, Business insurance ranked Cottingham & Butler as the 36th largest broker in the United States - in an industry of over 38,000.

insight

The stakes are high. Businesses face an array of risks, ranging from liability for the workplace conduct of their employees to the impact of catastrophic weather events. They should expect from their insurance partner a thoughtful assessment of these risks and an insurance program tailored to protect their business and employees.

Putting the right insurance programs in place takes significant analysis and expertise. We believe that over time the success of any insurance program is largely driven by insight. At Cottingham & Butler, we are committed to helping our clients identify the drivers of their claims and take actions to eliminate or mitigate those claim drivers. We read and understand our clients' insurance policies to ensure that the policies address the appropriate risks. We don't pitch programs that expose our clients to financial ruin wrapped in a cloak of near term savings.

This year's annual report tells stories of our insight in action through real client examples. These examples highlight the results we created for our clients by deploying our proprietary processes for assessing and managing risk. They demonstrate how insight can lower

the cost of insurance and improve coverage. They show our breadth of capabilities and our commitment to industry expertise, reflecting the passion of our people.

To many, we may appear to be serious insurance geeks. Indeed, we are. It is our commitment to expertise that allows us to serve our clients so well. Our ability to deliver real value to our clients has allowed our firm to grow and prosper. In 2011, *Business Insurance* ranked our firm the 36th largest broker in the United States.

With nearly 125 years in business, we have gained a healthy respect for risk and uncertainty; we also recognize the human tendency to discount the potential for catastrophes to happen. In an industry where pseudo-professionals regularly pitch risky programs that expose their clients to financial calamity, Cottingham & Butler will continue to leverage deep insight and understanding to provide the most cost effective insurance programs to meet our clients' insurance needs and tolerance for risk. They deserve no less.

David O. Becker

transportation group

At Cottingham & Butler, we know trucking. With over 120 individuals serving the trucking industry, you can be confident that your needs will be taken care of by experienced individuals. Why does working with an expert matter? Some of our recent findings show the influence deep insight has on the outcomes for our clients:



Our collateral audits have, on average, helped clients lower their collateral by 25%.

- On average, our Transportation Risk Assessment has identified 10-15 areas for improvement in coverage per client. While clients rightfully focus on the cost of insurance, we actually read the policies so we can identify areas that may not be adequately covered.
- Our collateral audits have typically helped our clients lower their collateral by 25%. We challenge the assumptions underlying carrier collateral calculations, including using appropriate trend and development factors.
- We have helped our clients develop real solutions to their most pressing business issues, such as driving, hiring, retention and CSA compliance. Leveraging our team of safety and claim professionals, allows us to offer our clients the most comprehensive set of insurance and related services.



INSIGHT IN ACTION TEAM (from left):
Chris Patrick, Senior Vice President Transportation (large fleet) | Jamie Schilling, Claims Supervisor | Chris Vogel, Vice President
Matt Montgomery, OSHA Analyst | Katie Unbehaun, Account Administrator | Steve Schill, Vice President Transportation (small fleet)

SITUATION:

A family owned trucking company with \$25 million in annual revenue had worked with the same broker for 10 years. The company had complete confidence in their insurance program before Chris Vogel and our Transportation Group performed a Risk Management Assessment. A thorough review of all the insured's policies revealed gaps in coverage and, in some cases, coverage that was unnecessary or duplicated. In addition, a review of the insured's losses compared to benchmarks identified several areas of improvement. Findings from our assessment included:

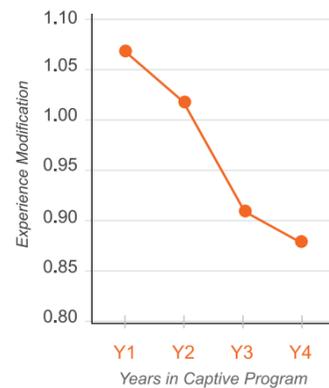
- 16 coverage and service deficiencies including a state specific Punitive Damages exclusion.
- Inflated premium costs compared to industry benchmarks.
- Minimal claims management – a number of claims were over-reserved, which was being used by the insurance carrier to justify higher premium levels.

RESULTS:

- Reduced premium by over \$60,000 while lowering deductibles and broadening coverages.
- Negotiated a significant reduction in collateral requirements.
- Provided claim advocacy on a large claim – insurance carrier wanted to settle the claim at the policy limits. We were able to settle for \$250,000 less.
- Implemented changes in the client's hiring criteria to better prepare them for new CSA regulations.
- Achieved NATMI certification for all safety personnel.

risk management

On average, our captive members see a 19pt drop in their experience modifications after 3 years.



Average workers compensation experience modification for the first four years in one of our largest captives.

Our Risk Management practice specializes in bringing the best solutions to our clients. We have embraced our Risk Management Assessment (RMA) process because it delivers the insight that our clients demand. The process reviews, in detail, our clients' insurance programs against four dimensions: coverage, pricing, program design and claims/safety processes. It provides a detailed set of findings for how to improve an insurance program and ensures that your insurance dollars are working as hard as they can. Some of the insights from our recent audits include:

- Our RMA dives deep into coverage and typically identifies 3-4 critical areas of concern. Items that if not corrected could have a devastating impact on a company. In addition, we often find coverage enhancements that can be made without increasing the annual spend. At the end of the day, if you are not adequately covered you are paying too much regardless of your price.
- Often, companies think they are getting a good deal. We benchmark insurance spend to their industry and provide insight into what the insurance marketplace thinks of their account – what drives their price.
- We provide real solutions on how companies can prevent or reduce losses. Our safety and claims experts work with clients to provide pragmatic plans and monitor the outcomes. This all starts with an in-depth review through our RMA.



INSIGHT IN ACTION TEAM (from left):
Dean Fair, Senior Vice President Risk Management | Wade McAnelly, Risk Management Advisor
Stacey Wiest, Account Administrator | Jared Sigwarth, Assistant Vice President - Director of Marketing

SITUATION:

A national multi-million dollar machinery manufacturer had traditionally placed its insurance with a big name broker. The manufacturer agreed to let C&B perform a full Risk Management Assessment which included a program evaluation, coverage review, claims analysis, and safety assessment. Wade McAnelly and the Risk Management team discovered:

- 20 coverage gaps and deficiencies that the manufacturer was unaware of.
- 4 major carriers who have an appetite for their industry had not seen the account in recent history.
- The current broker was not providing claims advocacy resources, formal safety consultation or premium benchmarking that compared their cost-of-risk to their competitors.

RESULTS:

Additionally, our review allowed us to:

- Notify the company of an incorrect work comp class code resulting in an \$80,000 audit return for the expiring year with their current agent.
- Bring a captive solution that, over the last five years, would have returned \$750,000 to their company. Their current agent had never mentioned a captive to them.
- Performed a contractual review and identified areas where they were in violation of contract terms with their largest client. In turn, we placed the proper coverage to meet contractual requirements.

captives & programs

Our Captives and Programs department develops alternative risk solutions for our clients. These solutions provide our clients a greater degree of control over their insurance program and a significant reward for managing their claims effectively. Our well-designed alternative risk program, combined with the resources and experience of Cottingham & Butler, has generated outstanding results. For example, in the past 12 months:

- Our group captives declared \$13,065,000 in dividends – effectively returning premiums to our clients.
- In our two largest and most mature captive programs, large losses decreased by 11.4% and claim frequency per exposure unit fell 4.75%, marking the 4th year in a row of declines.
- We retained 100% of our captive clients across all of our captives.



INSIGHT IN ACTION TEAM (from left):
Jim Hermesen, Claims Manager | Dick McKay, Vice President Transportation | Chad Hoppenjan, Manager – Fleet Safety Services
Mark Fitzjerrells, Vice President Captives and Programs | Chris Patrick, Senior Vice President Transportation | Joseph Broderick, Vice President Transportation | Matt Ferris, Vice President Transportation | Chris Vogel, Vice President Transportation

SITUATION:

Traffic Insurance Limited began operations in 1993 with 3 members and now boasts 55 active owners throughout the United States. Traffic's objective is the same today as it was in 1993: to provide best-in-class transportation companies an alternative to traditional insurance that offers stable and manageable costs while rewarding favorable claims and safety performances.

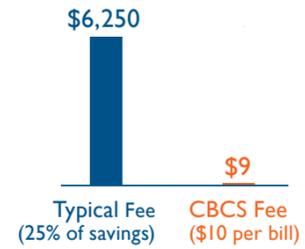
RESULTS:

Most Traffic members have enjoyed up-front savings and reduced premiums throughout the years of membership. Cottingham & Butler Claims Services and Safety Management divisions have played a significant role in Traffic's success. We have demonstrated that best-in-class companies and services produce best-in-class results:

- Over \$38,000,000 in dividends returned
- 3-year average Auto Liability
 - 1.13 claims per million miles
 - 0.76 cents in claims per mile driven
- 3-year average Workers Comp
 - 1.39 claims per million dollars of payroll
 - 2.12 cents in claims per dollar of payroll
- 12% decrease in large dollar claims over the past 12 months
- 7% decrease in average claims frequency over the past 12 months
- 99% overall average voluntary retention

cwcs (cottingham & butler claims services)

At Cwcs we believe that how claims are handled matters. We have over 25 years of experience handling extremely difficult claims, and we are not afraid to take on challenging claim situations. We also believe that your TPA should be transparent. Our industry is filled with TPAs and insurance companies charging outlandish and often-hidden fees on top of their per-claim fee. At Cwcs, we focus our insight on helping our clients save money. For example:



Bill review cost comparison:
(single bill with a \$25,000 savings)

- Many of our competitors charge up to 25% of savings for standard bill review services while we charge less than \$9 per bill. The difference for large clients can be worth \$200,000 or more a year.
- We continually enhance all of our cost management programs, including upgrading our Preferred Provider Organization (PPO) program, instituting large claim negotiations, leveraging 3rd party networks for imaging and physical therapy, and rolling out a new approach to managing pharmacy claims. The result is greater savings for our clients.
- The proof of our performance is in our retention. Over the last 12 months, our retention rate has been 100%. When clients experience the Cwcs difference, they choose to stay with us.



INSIGHT IN ACTION TEAM (from left):
Dave Franson, Senior Vice President Safety & Claims | Dan Unmacht, Vice President Casualty Claims
Sara Palmer, RN, Case Manager Supervisor | Chris Puetz, Workers' Compensation Claims Supervisor

SITUATION:

An employee of a trucking client sustained multiple injuries in a motor vehicle accident while working on the job. Due to the severity of the accident the employee underwent bilateral total knee replacements, hip replacement, rotator cuff repair, and a wrist fusion. The employee's lawyer was claiming permanent total disability with a projected future wage loss of \$600,000. There were multiple failed attempts to settle the claim by the client's attorney.

ACTIONS:

- Cwcs's Workers' Compensation nurse assessed the severity of the injuries
- Surveillance on the injured employee
- Labor Market Survey job analysis
- Independent medical exam

RESULTS:

- Surveillance, found the claimant was mildly active – disputing the fact that his attorney stated he couldn't do anything
- Labor Market Survey/job analysis, able to identify multiple job opportunities in the local community given his limited capabilities
- Independent medical exam, disputed permanent restriction assigned by his treating physician to assist in settlement.

With approval from the client, Cwcs contacted the employee's lawyer directly, presented our findings and was able to settle the claim for \$300,000.

Total immediate savings: \$300,000

safety management services company

DAYS SINCE OUR
LAST ACCIDENT

3 6 5

Last year, Safety Management Services Company had 56 client locations that were injury free.

Safety Management Services' team of professionals believes that all accidents can be prevented. The effectiveness of a safety program is directly tied to senior management's involvement. Our consultants employ a systematic process to change a clients' safety culture – blending safety with productivity in a lean environment. Our team provides the insight for safety excellence. For example:

- Our “change” process begins with a scored gap analysis outlining the weaknesses in the clients' current safety process. This approach differs from our competitors in that we use employee perception surveys and interviews to identify the true barriers to change.
- The gap analysis is followed by our STEPS course for senior leadership. The training program focuses on safety skills critical to achieving a culture of individual responsibility for safety.
- Clients that commit to the process see accident rates that are 50% better than their peers. Last year, we had 56 client locations that were injury free.

SITUATION:

Amerhart, a building supply wholesaler/distributor, has provided products and services throughout the Midwest for over 70 years. For most of those years, their broker and insurance company provided minimal safety assistance. In 2007, Cottingham & Butler became Amerhart's broker and introduced a new approach on safety.

ACTIONS:

Safety Management Services implemented their proprietary safety program that included:

- Gap analysis
- Workers comp risk improvement process
- On-site training of frontline workers
- Leadership skills development for managers, supported by ongoing coaching
- Technical skills development

RESULTS:

Over the course of a few years with Safety Management Services, Amerhart showed the following improvements:

- Improved Safety Management Audit Score
2007: 51%
2010: 87%
- 36% drop in Total Case Incident Rate (TCIR) – Injury Frequency
2007: 5.99
2009: 3.79
- 75% drop in Days Away From Work Injury and Illness Rate (DAFWII)



INSIGHT IN ACTION TEAM (from left):
Dale Sabers, Director of Risk Management Services | Dave Franson, Senior Vice President Safety & Claims
Carla Hiatt, Administrative Services Coordinator | Tom Hinman, Safety Consultant

tribal consulting

Our proprietary Medicare-like rates program has often generated over

\$1,000,000

in annual savings for our tribal partners.

Our Tribal Consulting practice specializes in bringing the best solutions to our tribal clients. We offer a full range of property & casualty and employee benefit solutions custom tailored to the unique needs of the tribal environment. When considering who to partner with for insurance, tribal nations are well-served to consider the insight offered by our Tribal Consulting practice. For example, in 2010-11:

- We found significant coverage gaps in several tribal P&C programs, including: inadequate limits, lack of flood coverage, as well as unnecessary and potentially dangerous exclusions that expose tribal nations to significant risks.
- We continued to offer our proprietary Medicare-like rates program allowing tribal nations to take advantage of federal legislation within their employee health plan – providing tribal members access to significantly lower rates on hospital encounters. Our proprietary process has often generated over a \$1 million in annual savings for our tribal partners.
- We offer full integration of services across Indian Health services, TPA administration, managed care and wellness programs – ensuring that tribal members receive the best care, at the most appropriate location, and at a competitive price.



INSIGHT IN ACTION TEAM (from left):
John Link, Vice President, Tribal Consulting | Benjamin Butler, Vice President, Tribal Consulting | Steven Kapparos, Benefits Executive

SITUATION:

A Midwest tribal government with over 800 members, including gaming operations, was pleased with their insurance programs. Medical claims were being handled by a third party administrator that operated through a health insurance company.

The property and casualty insurance was seemingly competitive and provided what they believed to be adequate coverage. However, with increased pressure to lower costs and create greater value to members, they turned to Cottingham & Butler Tribal Consulting for a better solution.

ACTIONS:

Our Tribal Consulting team transferred the medical claims administration to SISCO, our in-house third party administrator.

RESULTS:

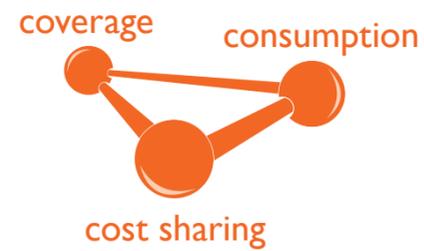
The move to SISCO produced the following results:

- Doubled the discounts they were receiving on claims, exceeding \$400,000.
- Improved preferred access to providers.
- Introduced comprehensive disease management.
- Streamlined administration for human resources and benefits department.

The property and casualty insurance proved to be too costly when benchmarked to similar sized operations. Tribal Consulting was able to reengineer their program in a manner that:

- Reduced premiums by 30% .
- Enhanced insurance coverage with broader limits.
- Reduced lingering insurance claim reserves by 20%.

employee benefits



Our approach goes beyond average costs per covered employee. We focus on three specific impact areas.

Our Employee Benefits practice aims to help employers balance the pressures of offering competitive benefit programs while controlling benefit costs. Our approach requires a deeper understanding of the underlying drivers of cost and, often times, a unique way of looking at employers' benefits programs. We are bringing new insights to our clients in a number of ways, including:

- Using our proprietary metrics approach for assessing benefit plans, which goes beyond average costs per-covered-employee to the underlying drivers of cost: coverage, consumption and cost sharing. This approach allows us to unlock clear actions that can be taken to reduce costs.
- Developing the most compelling trucking benchmark survey – allowing our trucking clients to benchmark their performance versus the industry.
- Deploying our benefits audit process to get a complete understanding of the inner working of a benefits program – enabling the development of targeted, effective initiatives to contain costs.
- For one large client, identifying and deploying actions to capture nearly \$15 million of annual savings opportunities.



INSIGHT IN ACTION TEAM (from left):
Krista Sigman, Director - Group and Executive Benefits | Bradley Plummer, Senior Vice President Employee Benefits
Kim Beck, Vice President Benefits Consulting | Dean Gilkes, Director of Marketing

SITUATION:

Jack Link's is the fastest growing meat snack manufacturer in the world, selling meat products in over 40 countries. Their rapid growth and success began to quickly outgrow their employee benefit programs. They invited Kim Beck and the Cottingham & Butler Benefits team to create a program that would lower cost and streamline procedures without compromising the quality of care their employees deserved.

CHALLENGES:

- Administering multiple plans
- Large claims on the rise
- Employee understanding of health benefits

ACTIONS:

- Consolidated all plans into one corporate administered national PPO network.
- Implemented compliance and enrollment best practice procedures.
- Increased employee perception of value by providing bilingual communication packages.
- Tightened plan language to be more in-line with competitive benchmark averages.
- Implemented a fully integrated wellness program to include annual health assessments with biometrics that tied premiums to participation and scoring/improvement year-over-year.

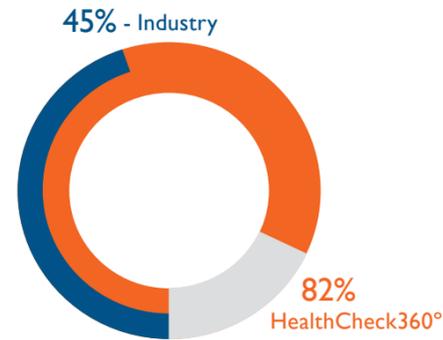
RESULTS:

- Health plan spend per subscriber in 2010 was the lowest it has been in four years.
- Current year health plan budget per subscriber is 7% below 2009 results with minimal cost shifting to employees.
- Dental plan participation was improved by 35%.
- Aggregate biometric wellness score improved 8% since 2009.

healthcheck360°

Our HealthCheck360° program is designed to help employers improve the health of their employees and lower health insurance costs over time. The wellness field has become quite crowded as employers look for answers to rising health care costs. New “employee friendly” models are emerging that appear to offer the best of both worlds: employee health improvement without the need for accountability. Our HealthCheck360° model stands out from the crowd for several reasons that are critical for driving real health improvements, including:

- Our scoring model is correlated to actual medical claims data – improved aggregate scores in your HealthCheck360° population over time translates into lower medical costs.
- We are 100% performance-based – where premium incentives are tied to health outcomes. Our proprietary survey of individuals, with the greatest health improvements, shows that 92% rated the performance-based system as “important to their health improvement”.
- We are one of the few wellness vendors that regularly connect actual health claims with biometric data to help companies assess where to target health improvement programs and resources. For example, our data shows that smokers and non-smokers cost roughly the same until age 55 and then the cost of smokers grows dramatically relative to non-smokers.



Average wellness program participation rate (2010)



INSIGHT IN ACTION TEAM (from left):
Michael Kelly, Director of HealthCheck360° | Angie Long, Director of Strategic Initiatives
Tammy Freisinger, Health Coach | Ashley Blume, Health & Wellness Administrator

SITUATION:

HealthCheck360° conducted health risk assessments for a primary care company. Among the participants was Janet, a 58-year-old, who was struggling with high blood pressure for 15 years. Her biometric results identified further health risks and a health score well below the target range of 71.

ACTIONS:

Following the Health Risk Assessment, Health Coach Tammy worked with Janet to achieve her personal wellness goals through:

- One-on-one health coaching phone calls
- Guidance and support enabling Janet to set realistic, personal, and sustainable health goals
- Targeted communications based on her identified risks

RESULTS:

- Within a year of starting health coaching Janet:
- No longer needs one of her blood pressure medications.
 - Lost 50 lbs.
 - Dropped eight pant sizes.

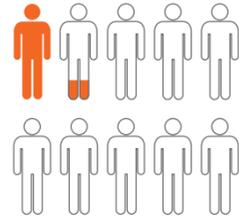
“The HealthCheck360° program made me aware of my health and was a source of encouragement when things were tough.”

- Janet

sisco (self insured services company)

SISCO, our third party benefits administrator, continues to develop new services designed to help our clients run more effective benefit programs. We see the world differently than most benefit administrators. We continue to pay attention to the claims rather than turn over the payment of our clients' money to the automation of a computer. In 2010, we leveraged our insight into the benefits world through a number of avenues, including:

- Conducting eligibility audits for clients that resulted in finding an average of 12% of dependents ineligible for their plans, generating savings of \$12.8 million.
- Creating stronger network options that deliver deeper discounts for our clients through our partnerships with Valley Health Services, CIGNA, and Health Payment Systems, Inc.
- Generating \$3.7 million in savings for our clients through our bill review and negotiation services.
- Enhancing the cost-effective coverage options available to our clients with Limited Medical Benefits provided through our partnership with the American Worker Plans, Inc.



SISCO eligibility audits find, on average, over 1 out of every 10 dependents are ineligible for the benefits they receive.



INSIGHT IN ACTION TEAM (from left):
Audrey Accola, Training Specialist | Lisa Franz, Medical Claims Representative | Dick Sigwarth, Vice President of Operations
Stacy Rauch, Claims Supervisor | Naomi Mason, Mail Center Associate

SITUATION:

A national health care provider with 15,000 employees across 18 locations was experiencing a significant increase in claims costs. Facing increased pressure to control spending, the client was forced to reevaluate their benefit program. They enlisted the experts at SISCO who identified a gap in their enrollment procedure and initiated a dependent eligibility audit.

CHALLENGE:

- Complexity - multiple plans covering 18 separate locations for nearly 17,000 dependents.
- Liability - both the employee and employer face unknown exposures associated with ineligible dependents.

RESULTS:

- SISCO identified 1,690 ineligible dependents with a first year savings for the client estimated at \$5.4 million.
- Licensed SISCO agents presented alternative coverage options to all ineligible dependents.

Last year, HealthCorp generated
\$8,000,000+
 in savings for our clients.

healthcorp

Our HealthCorp team is dedicated to helping our clients better manage their medical claims expenses. We recognize that a small percentage of individuals drive the lion's share of benefit costs each year. However, we also have the insight to know how to best identify and target these individuals. For example:

- In a given year, more than 60% of large claimants had no significant claims in the prior year. If you simply look at claims data, you will miss the individuals that are likely to drive future claims. Our approach integrates biometric data with claims data, leveraging a predictive modeling system. This allows us to better identify who the future large claimants will be and engage them sooner.
- We believe that attentive management of utilization is critical and often neglected by major carriers in the market. With our aggressive approach to pre-certification, concurrent review, and immediate referral to case management, our average inpatient stays per 1000 members consistently beats national benchmarks.
- Our new condition management offering drives intense accountability, around care and medication adherence, into the population of those with chronic conditions. With a quarterly follow-up on every member to ensure compliance with required treatment protocols (all tied to incentives and plan choices) we are helping companies manage their most at-risk population.
- Last year, we generated over \$8 million in savings for our clients from our utilization review, case management and disease management services.



INSIGHT IN ACTION TEAM (from left):
 Chris Lambert, Case & Disease Management Supervisor | Dr. James Hall, Medical Director | Marnie Kane, Case Management Nurse

SITUATION:

A 49-year-old female with diabetes and chronic kidney disease was self-administering peritoneal dialysis at home. The patient experienced complications resulting in several hospitalizations, costing \$5,000 - \$15,000 per admission.

ACTIONS:

- Case Management nurses facilitated the transition to an outpatient hemodialysis where the participant would travel to a facility 3 times a week for dialysis.
- When the patient's body was unable to tolerate outpatient hemodialysis, the Case Manager set up and negotiated for home hemodialysis (administered by an RN) resulting in greater compliance, better outcomes and an increased quality of life.

RESULTS:

- The patient continues to receive dialysis in the home three times a week.
- She has not been hospitalized in over 25 months since implementing our Case Management.
- Savings from the hemodialysis negotiation and reduced hospitalizations total \$190,645 since Case Management's involvement began.



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