
Interview: Greg Case





CLIENTS COME FIRST

Aon's move to London from Chicago was the most high profile strategic move the insurance industry has ever seen. Greg Case, the company's chief executive, explains to Intelligent Insurer the reasons behind the shift of address and why a more complex risk landscape is a good thing for brokers.

“I have been in London enough times to know to look right instead of left and to mind the gap. I expect to use my umbrella more than my snow boots, and because of Aon's sponsorship of Manchester United, I now understand the distinction between overtime and extra time, and between the field and the pitch. So I think I am coping pretty well.”

That is how Greg Case, the chief executive officer of Aon, responds when asked how he is coping since transferring the headquarters of the broker to London from Chicago this year. Forget the humour, there was a lot more to the move than changing the address on the company's headed paper. It was significant both given the history of Aon and for its future strategic plans.

Its carefully worded statements at the time said it wanted to be closer to Lloyd's of London and the London Market—the two key international hubs for insurance and reinsurance. Given that Aon sees its future growth from international and emerging markets, it saw benefits in this proximity.

That is undoubtedly true. But the fact is that tax experts estimate the broker will also save some \$50 million annually as a result of the move, in part thanks to the fact that the UK's tax rate—which stands at 24 percent

now but will fall to 22 percent by 2014—is 12 percentage points lower than that of the US. This was hailed as vindication of the UK coalition government's business-friendly tax regime but it was bad news on the other side of the Atlantic for President Barack Obama, in election year.

When outlining its plan to the US Securities & Exchange Commission (SEC), the broker noted that the move would cut its global effective tax rate and help its cash flow. Referring to the latter, analysts have suggested that some of the savings will fund the \$5 billion share buyback programme Aon unveiled in April this year.

BRAVE AND SHREWD

Whatever the underlying reasons for it, the move is both a brave and a shrewd one for Case to have undertaken. It was brave given the company's distinctive heritage. Aon was formed by the merger in 1982 of two Chicago businesses—Ryan Insurance Group and Combined International Corp—and has kept its corporate home there since. It is one of Chicago's most prominent businesses and its identity is wrapped up with the city. It was no coincidence that the announcement reaffirmed the importance of Chicago to the broker and also announced job creation there, with 750 staff moving to the Aon Center in downtown Chicago, where the company has signed a 15-year lease.

The move was also a shrewd one by Case, for the very reasons he has emphasised. Tax advantages in different domiciles will ebb and flow as governments and their policies change. But London has been the hub of the global insurance markets since the industry's earliest days—and this is less likely to change. Case understands that Aon's future growth will increasingly be linked to emerging economies around the globe, and London is the natural hub for that business.

"Moving our headquarters to London was the logical next step in the evolution of our firm," he told *Intelligent Insurer*. "In addition to being the centre of the insurance world and the birthplace of risk management, London is the traditional and contemporary hub for our work in the UK, Europe, the Middle East and Asia. Many of our clients in Asia and Latin America seek their risk solutions in London.

"Our decision also provides Aon with increased financial flexibility that will allow us to make more significant investments in our global network, our broking capability, and in the continued development, retention and acquisition of key risk and human resource (HR) professionals around the world in each of our primary and developing markets."

Aside from the move, Case's strategic thinking for the broker is very much in line with the firm's heritage and the way it has developed. Since that first merger in 1982, when the Aon name also first came into being, its rapid growth has been fuelled by a mixture of strategic acquisitions and organic growth. In 20 years, it has bought or merged with some massive names and, most recently, these have been widening the scope of its offering into industries that are separate from, but related to, insurance broking.

SQUEAKY CLEAN

In January 2009, the UK's Financial Services Authority (FSA) fined the UK risk business for Aon, Aon Ltd, £5.25 million for "failing to take reasonable care to establish and maintain effective systems and controls to counter the risks of bribery and corruption associated with making payments to overseas firms and individuals".

The fine related to instances between January 2005 and September 2007 when, the FSA claimed, Aon Ltd failed properly to assess the risks involved in its dealings with overseas firms and individuals who helped it win business, and failed to implement effective controls to mitigate those risks. As a result of this, the firm made various suspicious payments, amounting to approximately \$7 million, to a number of overseas firms and individuals.

It was, at the time, the largest financial crime-related fine ever handed out by the FSA and an extreme embarrassment for Aon, which had only just got over the US-based regulatory storm over the use of contingent commissions.

Referring to the FSA fine, Case says Aon began an internal review in 2007 and put in place a comprehensive and global anti-corruption programme designed to prevent and detect improper conduct.

"We have invested a significant amount of time and resources in anti-corruption compliance and transparency to greatly enhance our controls and processes. The FSA, the US Department of Justice and the SEC have all recognised Aon's determination to set and meet the requisite high standards of compliance in this area."

He also notes that as part of the settlement by Aon Ltd in 2009, the FSA stated that "the proactive determination of Aon Ltd's current senior management to identify past issues and improve the firm's systems and controls in this area is a model of best practice that other firms may wish to adopt".

Some issues, however, never seem to go away and the use of contingent commissions still rumbles on. Case admits Aon does bank such payments but that they are not a core part of its business model.

"Our stance is that contingent commissions have never been a significant part of our operating model. Aon's focus has always been on full transparency with our clients and in delivering the highest value for price in the industry," he says.



Aon's acquisition of Benfield in 2008, for example, gave it a stronghold in reinsurance. Its \$4.9 billion acquisition of Hewitt Associates, a HR consulting and outsourcing company, in October 2010, tripled the size of its consulting operations—these now represent 40 percent of its total revenues. This deal meant that it now classes its overall offering to clients as twofold: solving problems surrounding risk, and highly skilled people.

Meanwhile, more recently, its deal with Westfield Financial Corporation, a provider of benchmarking and best practices research studies for insurance companies last year, gave Aon yet another complementary string to its bow.

But this expansion into new product offerings can only go so far. Its further growth will more likely come from applying its portfolio of expertise to clients in new and emerging markets around the globe.

In this sense, the London move makes a lot of sense, and Case highlights other specific businesses that have developed more organically that will benefit from the new address, including the Aon Global Risk Insight Platform (GRIP) and Aon GRIP Solutions, its newly developed platforms that collate information concerning insurance placements globally and use this information to help clients make the best choices.

"We were looking to achieve a further strengthening of our business operations in order to meet and exceed the goals of our long-term global growth strategy. The move to London reinforces our ability to deliver superior value to clients and further differentiate Aon, and we are already seeing results in some of our key strategic growth initiatives, such as Aon Broking, Aon GRIP, and Aon GRIP Solutions," Case says.

DELIVERING VALUE

Case explains that, especially when it comes to acquisitions, Aon always seeks to deliver value to its clients. Each acquisition has been consistent with that strategy, providing Aon with strategic and financial benefits that strengthen its ability to serve its clients on what he sees as the two greatest problems facing modern companies: risk and people.

"Going forward, we intend to continue to expand our global footprint through organic revenue growth and with tuck-in acquisitions that either increase our scale in emerging markets or expand our capability to serve our clients better," he says.

Aon is already well into the process of digesting some good examples in terms of acquisitions. In 2011, for instance, it completed the acquisition of a rival risk management brokerage in South Africa, Glenrand MIB, in a deal worth R523 million (\$59 million). That deal gave Aon's South African operations a stronger foothold in the local market, where it had previously lacked scale.

"The deal significantly strengthened our position as the leading broker on the African continent over the long term, and it added approximately 15,000 corporate, public sector, specialty and commercial clients to our client base, including many of the blue-chip companies on the

AON IN NUMBERS

While Aon has posted steady growth recently, this growth and the profits have varied by business line, with its HR businesses showing the strongest performance.

Aon's total revenue for the second quarter of this year was \$2.8 billion, with organic revenue growth of 4 percent. Within that, Risk Solutions revenue decreased 1 percent to \$1.9 billion, with organic revenue growth of 4 percent; HR Solutions revenue increased 3 percent to \$931 million, with organic revenue growth of 4 percent.

Aon's total net income for the quarter decreased 5 percent to \$246 million, or \$0.73 per share, compared to \$258 million, or \$0.75 per share, for the prior year quarter.

"Our second quarter results reflect improved organic revenue growth across all of our major businesses as we make significant investments to further strengthen our client-serving capabilities," said Case, when the figures were reported.

"While macro conditions remain fragile globally, we continue to expect improved performance in the second half of the year. Our underlying performance is on track with our long-term targets and we have completed significant steps to position the firm for long-term growth, strong free cash flow generation and increased financial flexibility as highlighted by the repurchase of \$250 million of ordinary shares in the quarter."

In its full year 2011 results, on the other hand, Aon posted some massive growth figures on the back of its strategic acquisitions. Its total revenue for 2011 increased by 33 percent to \$11.3 billion due to a 29 percent increase in commissions and fees resulting from acquisitions, primarily Hewitt, net of dispositions, a 2 percent increase in organic revenue driven by Risk Solutions, and a 2 percent favourable impact from foreign currency exchange rates. Risk Solutions' total revenue increased 6 percent to \$6.8 billion and HR Solutions' total revenue increased 113 percent to \$4.5 billion as a result of the merger with Hewitt.

The firm's net income for 2011 increased by 39 percent to \$979 million, compared with \$706 million for 2010.



Johannesburg Stock Exchange, as well as more than 60,000 personal lines clients," Case says. "It also enhanced our network of offices in sub-Saharan Africa."

This thinking can be seen in other ways. Aon Hewitt, the HR solutions business of Aon, for example, has opened a new office in Jakarta from which it launched the Aon Hewitt brand into the Indonesian market.

This global outlook also fits with Case's view of where the insurance industry is headed generally. He is upbeat about the future of brokers and believes two interconnected things: that the expertise and services of intermediaries such as Aon will grow in demand as the risks businesses face become more complex; and that the greatest opportunities for growth will come from new markets, which the industry must work hard to identify and serve.

"The future of insurance brokers is bright," he says. "Our services and expertise are needed more than ever. And we believe our focus on identifying global opportunities in emerging markets will strengthen our ability to drive future growth, build innovative products, develop talent and deliver shareholder value," Case says.

"Specifically, we see opportunities for growth in Latin America, China, Eastern Europe, India, the Middle East and Asia. The continued roll-out of the Aon GRIP platform into new markets, as well as tuck-in acquisitions that add scale in emerging markets, also will create additional growth opportunities for us in 2012."

INNOVATE TO WIN

Case also notes that the industry cannot take anything for granted. He believes it is crucial for brokers to remain focused on the needs of clients and that they must constantly innovate to ensure they are creating solutions to the new risks that are emerging in the world. "We cannot be complacent," Case says.

He identifies three main steps he believes Aon must take to remain an important and relevant partner to its clients and carriers. "One, we must remain client-focused," he says. "If we do not take the time to listen and understand our clients' needs, we cannot provide the best advice and truly serve those needs.

"Two, we must continue to provide a long-term perspective. As advisers we have insights from interactions with clients across multiple industries. That broadens our scope and gives us depth of experience that can help clients to make more informed decisions and achieve better outcomes."

Finally, he says the broker must continue to invest in innovation. "Brokers exist because of the value we bring to clients and carriers. Continuous investment in innovation is an important commitment to enhancing our value to clients. If we stay focused on clients, offer informed perspectives, and keep innovating, we will become even more valuable advisers, because the world needs our expertise to manage difficult challenges in an ever-changing environment."



Case interacting with participants in Aon's Global Service Day event in Chicago

MEET GREG CASE

Case was elected president and chief executive officer of Aon on April 4, 2005. Prior to joining Aon, he was with McKinsey & Company, the international management consulting firm, for 17 years, finally serving as head of the Financial Services Practice.

He was previously responsible for McKinsey's Global Insurance Practice, and was a member of McKinsey's governing shareholders' committee. Before joining McKinsey, Case was with the investment banking firm of Piper, Jaffray and Hopwood and the Federal Reserve Bank of Kansas City.

Case has brought stability and success to Aon while also completing some significant strategic acquisitions and driving forward its strategic focus. But like many leaders, he says that the most important aspect of his leadership style is around empowering others — and ensuring they are focused on the needs of clients.

"The most fundamental piece of leadership is about understanding opportunity, understanding how colleagues can meet those opportunities and helping them to be successful in a way they never knew they could be. When you do that, you create tremendous energy in an organisation," he says.

"If you ask yourself, what are the ingredients for an organisation to be successful and sustain that success, you come back to three essential points. The first is a common vision of what you are trying to accomplish. The second is alignment around that vision—do we understand it together?"

"The third is how are we going to serve our clients? The more effective we are in creating a vision across the firm, the more effective we are in having alignment and collaboration. The more effective we are in collaborating, the more effective we are in trusting each other and the more effective we are as an organisation and in serving clients."

“We have been on a journey for the past few years working with our colleagues and clients in terms of adding valuable advice to our product offerings and solutions.”

This philosophy stems from the problems and challenges he sees the business’s clients grappling with. He says their global challenges around risk have never been greater—and they are increasingly turning to Aon for advice.

“Everywhere we look, the magnitude, scope and complexity of risk are increasing. Are clients telling us they really are not worried about risk any more? Are they telling us as brokers ‘we no longer need you—we have this risk thing figured out’? No, they are not. All of the traditional risks, such as property, casualty, and D&O, remain and are growing, as are evolving risks such as global warming, sustainability, pandemic, identity theft and cyber risk.

“There has been no greater time in our industry for brokers to serve as risk advisers to empower results for our clients so they can protect themselves against the downside of risk. If we are focused on helping clients to enhance their operating performances and strengthen their balance sheets, then we can quantify the volatility and what is needed to manage it. In this sense, the role of the broker as a distributor of risk transfer in the traditional sense becomes even more important.”

For Aon to do this most effectively, it must offer a complete risk transfer and advisory role to clients, with the relevant data and analysis to back it up. “For us this is a natural evolution from that of a traditional transaction-based broker to more of a risk consultant—it is completely driven by what the client needs to be successful,” Case says.

And, he says, this approach also informs his priorities over the next 24 months. His dynamic in terms of what makes a successful broker is straightforward: he wants clients to understand clearly the value for money they get from their relationships with Aon.

“We have been on a journey for the past few years working with our colleagues and clients in terms of adding valuable advice to our product offerings and solutions. This is not just conceptual for us; it is tangible,” Case says.

“At the end of the day, we are adding value and customers are happy to pay if you help to add value. If you do not add value, then they do not want to pay for it. Our goal is to offer the highest value per cost. If the customer gives us one dollar or one euro then we want to be able to give back two dollars or two euros in value. We have to be, and want to be, the provider of the highest value to price.” □

An artist’s rendering of what the “Cheese Grater” building in London will look like when Aon takes occupancy

