

Aon CFO's Special View of Risk, Health Care and Pensions

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Christa Davies has an enviable position. As CFO of Aon, she has at her disposal a global advisory firm focused on risk, health care and pensions – three of the biggest issues facing finance chiefs today.

Since the 41-year-old Australian joined Aon in November 2007 from Microsoft, where she was the CFO of its platform and services division, Davies has been instrumental in shifting the firm from capital-intensive insurance underwriting to a cash flow-focused service model. In particular, she's overseen the largest mergers in Aon's history – the \$1.4 billion deal for Benfield Group in 2008 and the \$5 billion acquisition of Hewitt Associates in 2010.

"My role is really around helping [CEO Greg Case] and our executive team reshape the firm through M&A," Davies said in a recent interview.

Aon is very much a client of its own advice, starting with risk. "We think about risk management as improving our earnings, freeing up capital on our balance sheet or managing volatility on our balance sheet," Davies said in a recent interview. "If it doesn't improve those three metrics for us, it doesn't really improve risk management on a measurable basis. We apply those three metrics for clients as well."



Christa Davies, Aon CFO

The company is also moving its employees on to the new health-care exchange it developed. The basic idea is that companies will give their employees a fixed sum of money and they can choose their medical coverage from an online marketplace. It's expected to be a closely watched strategy as health-care costs continue to rise and the biggest parts of the Affordable Care Act take hold for companies in 2014.

"Our health-care investment has been significant," Davies said. "We really believe that will generate disproportionate returns over the next couple of years."

She said demand already "massively exceeds supply" and Aon will "have to figure out the optimal number of clients in 2013." So far Sears Holdings and Darden Restaurants have signed on to use the exchange.

The transition to a health-care exchange isn't a simple one, Davies said. Among the considerations: Companies need to figure out the kind of benefits they'd offer through an exchange, design how they'll communicate with employees, and then oversee the implementation.

"We need to partner with [companies] to make sure they navigate through that successfully," she said.

Davies also has some in-house partners to help manage the company's pension obligation, namely the experts at Aon Hewitt. "I will say that it's one of the great benefits of the Hewitt acquisition to me personally," she says.

Aon has made significant adjustments in recent years to its pension plan, which it expects to have fully funded on a GAAP basis by 2016. The company has closed the plan to new entrants, frozen benefits and even decreased them in some instances. It has also removed volatility from the plan by moving from equities to fixed income investments and using derivatives to better match assets and liabilities. Still, the company expects to contribute \$640 million to the plan this year.

"It is a significant use of our free cash flow," Davies said.

Davies was a big part of a recent geographical shift for Aon: In April, it moved its headquarters to London from Chicago. And while the move has grabbed attention for its tax benefits, Davies insists that Aon would have moved even if the tax situation in the U.S. and the U.K. were the same. She said the move puts it closer to Lloyd's of London, where it expects to place a growing amount of premiums. The relocation also allows it compete for more emerging markets business, which is disproportionately placed in the U.K., Davies says.

"Absolutely there are some financial benefits to the move, but it was really the strategic growth around Aon broking and emerging markets that drove the decision," she said.