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AON PLC

FORM 8-K
(Current report filing)

Filed 02/13/07 for the Period Ending 02/13/07

Telephone	(44) 20 7623 5500
CIK	0000315293
Symbol	AON
SIC Code	6411 - Insurance Agents, Brokers, and Service
Industry	Insurance (Miscellaneous)
Sector	Financial
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **February 13, 2007**

Aon Corporation

(Exact Name of Registrant as Specified in Charter)

Delaware	**1-7933**	**36-3051915**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

200 East Randolph Street, Chicago, Illinois	**60601**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(312) 381-1000**

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

On February 13, 2007, Aon Corporation will deliver an investor presentation that includes the material attached to this Current Report on Form 8-K as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits.

(a)—(c) Not applicable.

(d) Exhibits:

Exhibit Number	Description of Exhibit
99.1	Investor Presentation Material.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Aon CORPORATION

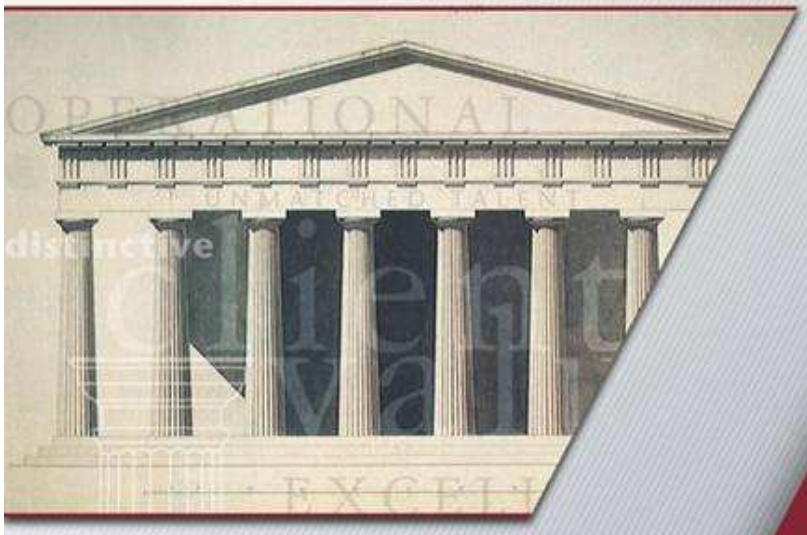
By: /s/ Richard E. Barry
Richard E. Barry
Vice President and Deputy General Counsel

Date: February 13, 2007

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
99.1	Investor Presentation Material

Greg Case, Chief Executive Officer
Scott Malchow, VP Investor Relations



AON

Safe Harbor Statement

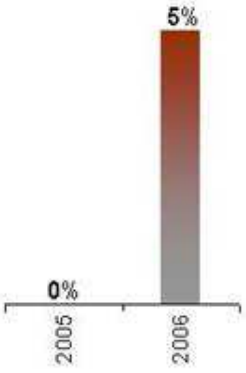
This presentation contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors that could impact results include: general economic conditions in different countries in which we do business around the world, changes in global equity and fixed income markets that could affect the return on invested assets, fluctuations in exchange and interest rates that could influence revenue and expense, rating agency actions that could affect our ability to borrow funds, funding of our various pension plans, changes in the competitive environment, our ability to implement restructuring initiatives and other initiatives intended to yield cost savings, our ability to execute the stock repurchase program, our ability to obtain regulatory or legislative changes to permit continuous sales of our supplemental Medicare health product, changes in commercial property and casualty markets and commercial premium rates that could impact revenues, changes in revenues and earnings due to the elimination of contingent commissions, other uncertainties surrounding a new compensation model, the impact of investigations brought by state attorneys general, state insurance regulators, federal prosecutors, and federal regulators, the impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions, ERISA class actions, the impact of the analysis of practices relating to stock options, the cost of resolution of other contingent liabilities and loss contingencies, and the difference in ultimate paid claims in our underwriting companies from actuarial estimates. Further information concerning the Company and its business, including factors that potentially could materially affect the Company's financial results, is contained in the Company's filings with the Securities and Exchange Commission.

Additionally, at certain times the Company will use non-GAAP financial measures, which the Company believes better describes the ongoing financial results and trends of the business. The required reconciliation of these measures to GAAP measures are included in the "Appendix" of this presentation.

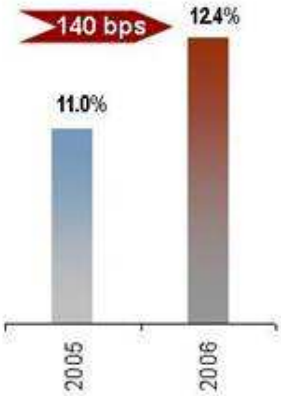
Delivering Distinctive Client Value

RISK & INSURANCE BROKERAGE	CONSULTING	UNDERWRITING	2006 TOTAL REVENUE
$5.6 billion	$1.3 billion	$2.1 billion	$9.0 billion
5%	2%	9%	6% y-o-y

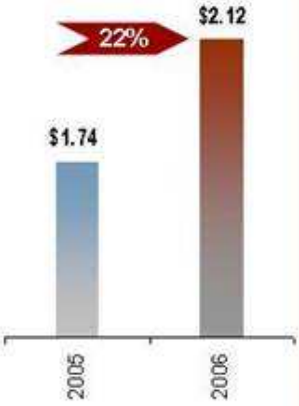
Organic Growth



Pretax Margin*



EPS from Continuing Ops*



- #1 Primary Insurance Brokerage
- #1 Reinsurance Brokerage
- #1 Affinity Programs
- #1 Captive Management
- Broadest Global Network of Resources & Capabilities
- Improving Operational & Financial Performance
- Returning Excess Capital to Shareholders

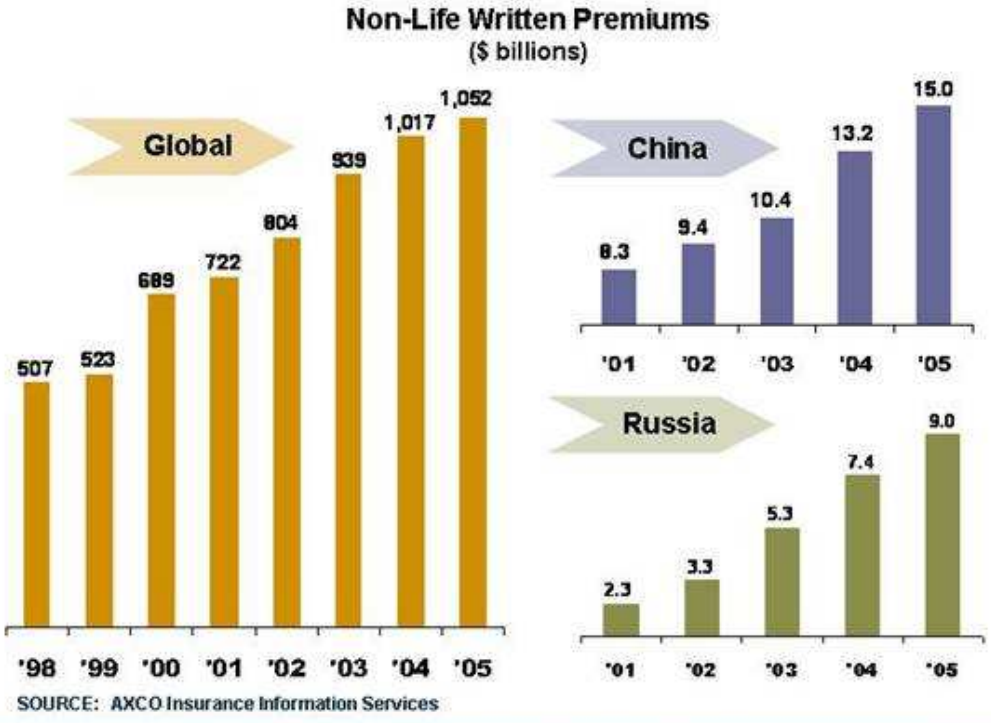
Operational Excellence: Organic Growth, Margin Expansion, Earnings Growth

* see Appendix for non-GAAP reconciliation

The Magnitude of RISK is Increasing

AON

- Complexity of risk is increasing
- Risk is both opportunity and downside protection
- Misunderstanding risk can be fatal
- Scrutiny of risk is increasing



SOURCE: AXCO Insurance Information Services

Global Warming | Asian Growth | Terrorism | Pandemic | Globalization

Broadest Global Network of Resources and Capabilities

AON

Based on total number of subsidiaries with 51% or more ownership

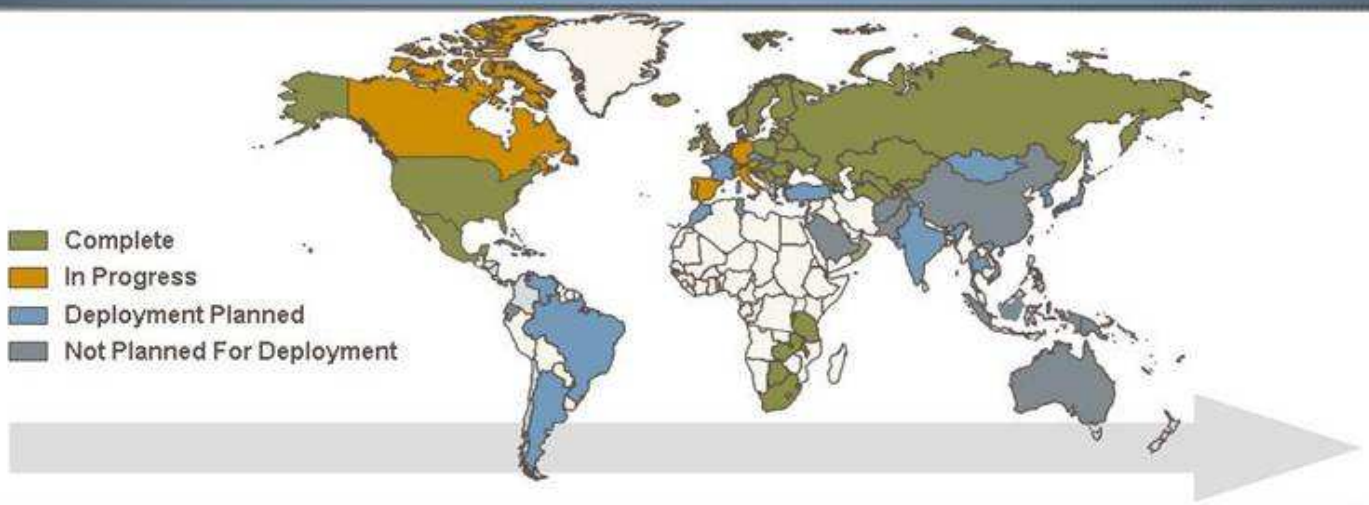
Focused on Integration and Alignment

Opportunities Exist to Improve How We Deliver Value to Our Clients

Local Market Planning	· Increased focus on target accounts using market planning tools · Fact-based analysis encompassing market size and market share data
Increase Client Facing Presence	· Drive culture of delivering distinctive value across all client activity · Outsource or offshore non-client interfacing activities
Revenue Management	· Fact-based sales performance and productivity management · Align market placing capabilities with client services
Product Development & Innovation	· Drive value proposition and "distinctive" offerings for Aon capabilities · Acquisitions that expand Aon's value to clients

We are Making Progress in a Number of Areas

Deployment of Centralized Global Sales Database



	2006	Q1'07	Q2'07	Q3'07	Q4'07
# Retired Applications	20	28	28	28	28
# Users	3,646	5,177	5,177	5,177	5,177
# Countries	38	52	54	54	54
% of Brokerage & Consulting Revenue	67%	90%	91%	91%	91%

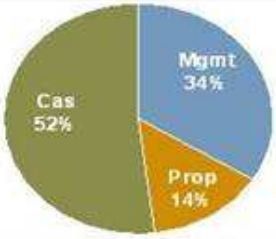
Building Critical Market Information

Aon Office	# of Cos.	# of Clients	% of Total	5 Yr. Ind CAGR
SRO New York	314	21	9.3%	5%
SRO Los Angeles	162	23	8.9%	9%
SRO New England	246	21	7.0%	8%
SRO Philadelphia	135	10	6.2%	4%
CRO Nashville	85	15	6.1%	7%
Top 5 Markets			**37.5%**	
SRO Minneapolis	78	9	4.5%	11%
SRO Houston	169	15	4.5%	6%
CRO Washington DC	104	4	3.9%	na
CRO Carolinas	123	10	3.9%	na
SRO Chicago	113	2	3.5%	3%
Top 10 Markets			**57.8%**	
Total US Opportunity			**$479 MM**	
SRO Share of Market			**56%**	

Local Market Planning Example – Industry: Illustrative Purposes Only

Top Market by Product				
1st	2nd	3rd	4th	5th
$23.8 Cas – Los Angeles	$22.8 Cas – New York	$17.3 Cas – New England	$16.8 Cas – Nashville	$15.7 Cas – Philadelphia

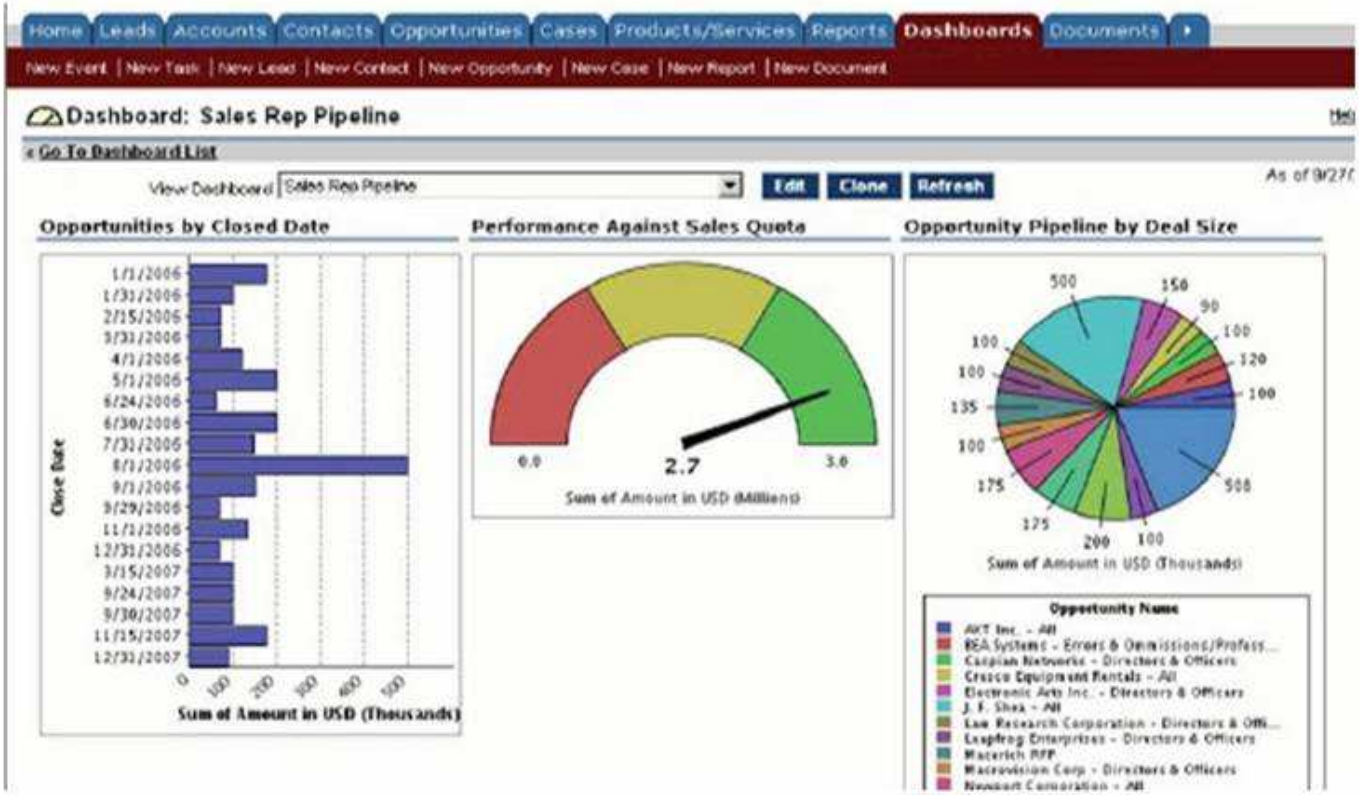
- ☐ Industry Rank ($, 1-15): 8
- ☐ Oppty Concentration (H/M/L): M
- ☐ SRO Concentration (H/M/L): L
- ☐ Practice Reach (H/M/L): M
- ☐ Expertise: Gnrl ——|—— Spclst



COMMENTS

- Integrated systems are complex sales
- Transactional business: covered by generalists
- Sales training critical for key products
- Market value proposition development
- Regional support critical

Managing Pipeline and Productivity Information



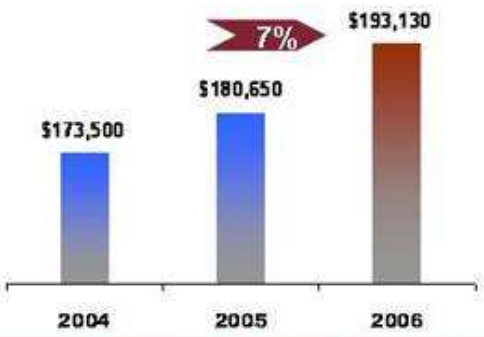
Improving Employee Productivity

BROKERAGE

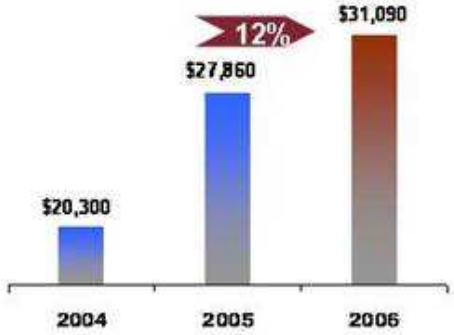
Employees

2004 — 30,881
2005 — 29,438
2006 — 28,882

Revenue Per Employee*



Pretax Income Per Employee*

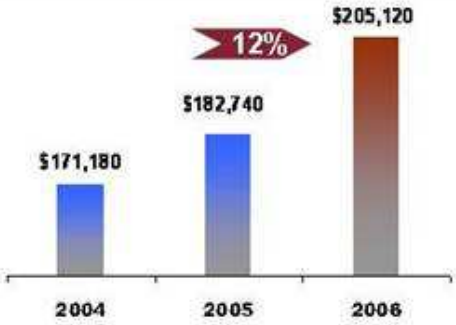


CONSULTING

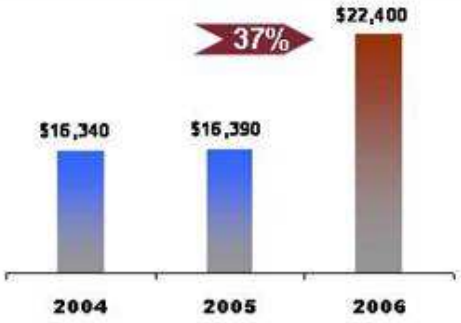
Employees

2004 — 7,162
2005 — 6,835
2006 — 6,250

Revenue Per Employee*



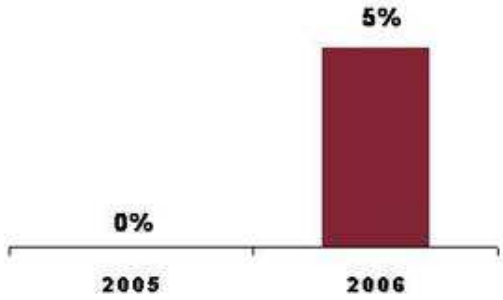
Pretax Income Per Employee*



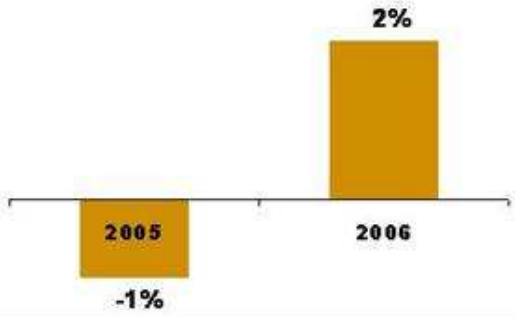
• see Appendix for non-GAAP reconciliation

Increasing Organic Growth

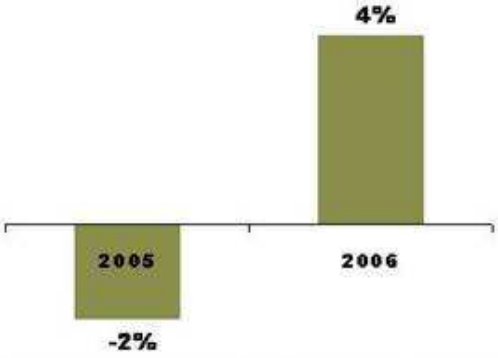
Total Organic Growth



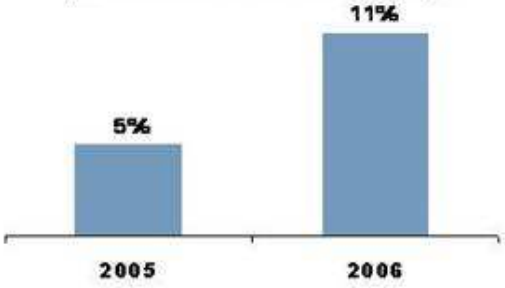
Risk & Insurance Brokerage



Consulting



Underwriting (Accident & Health and Life)*



• based on net written premiums

Improving Client Satisfaction

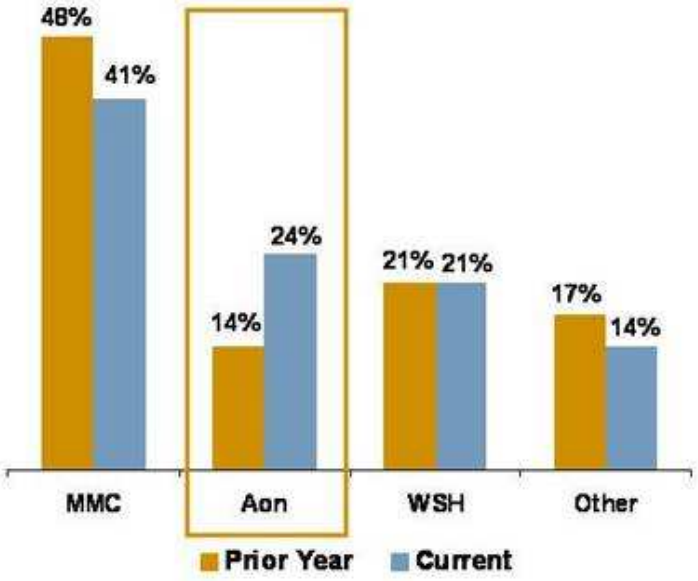
Overview

- UBS surveyed 31 risk managers
- Companies characterized as upper middle market to large accounts, with public companies having market caps of $2.5 to $100 billion

Results

- Aon gained the most ground with 24% of the first-place vote versus 14% in the prior survey
- Historically, UBS has found that changes in sentiment toward the large insurance brokers among risk managers, have mirrored changes in market share among the big three insurance brokers

How would you rank the following Brokers from an overall quality perspective?
(% of First Place Votes)



Source: UBS, December 2006

Clients are Relying on Aon for more than Traditional Brokerage Services

Case Example: Fortune 500 Biotech

Issues

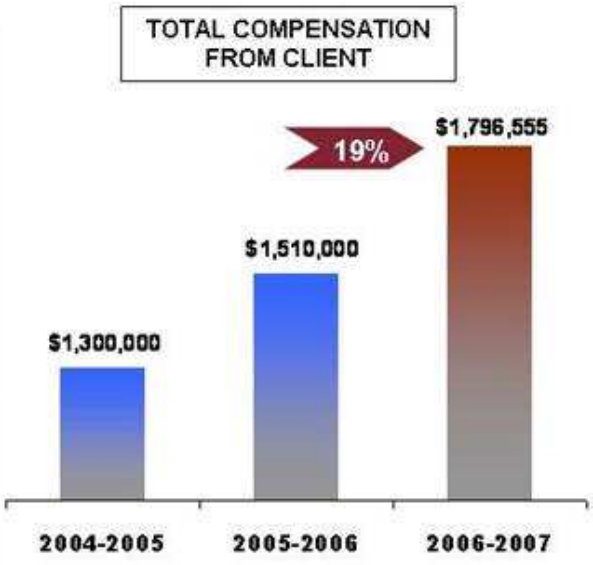
1. Concentration of physical assets and exposures
2. Supply chain interruption
3. Exposure to California earthquake

Value Proposition

Aon provided significant industry experience while constructing a dynamic ERM model with key input variables capable of determining loss projections for long range financial planning

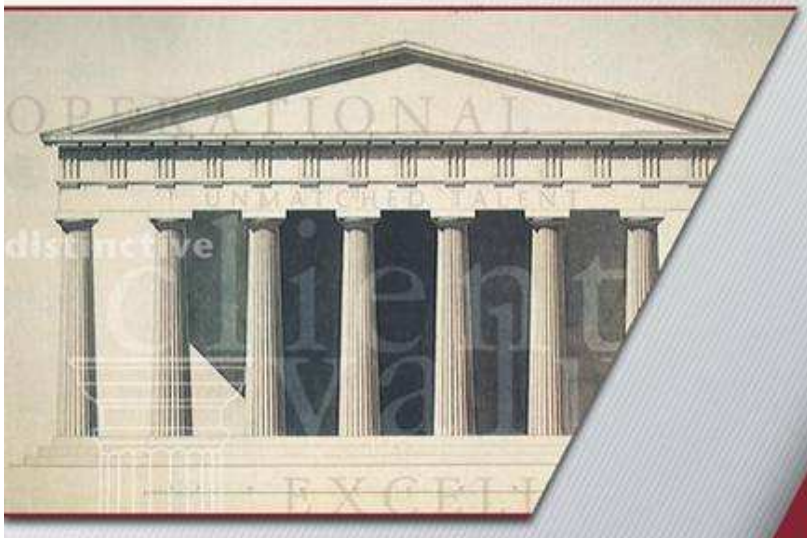
Outcomes

- Aon awarded entire commercial insurance business from incumbent broker of 15 years
- Aon secured a $100 million increase in contingent business interruption insurance for client
- Completed captive feasibility studies



"risk management is now embedded in all decisions throughout the company and no capital decisions are made without a risk assessment" ....client Risk Manager

Primary Operating Segments



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Risk and Insurance Brokerage Services

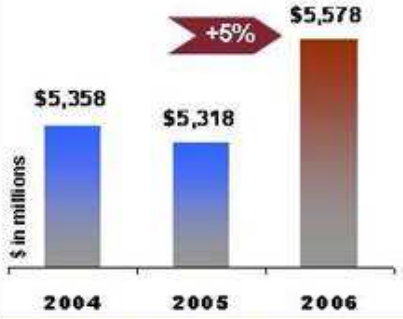
Highlights

- #1 Primary Insurance
- #1 Reinsurance
- #1 Affinity Programs
- #1 Captive Management

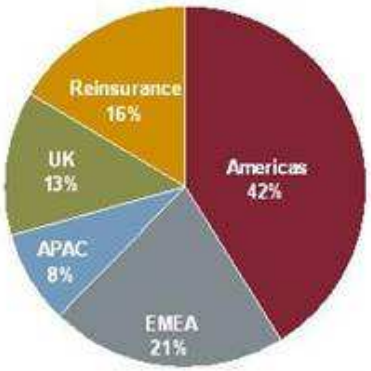
Key Initiatives

- Complete rollout of centralized global sales platform
  - Drive local market planning
  - Manage pipeline and productivity
- Reduce non-client interfacing activities
- Align London with global network
- Increase Bermuda presence
- Leverage strong technical capabilities

Total Revenue*



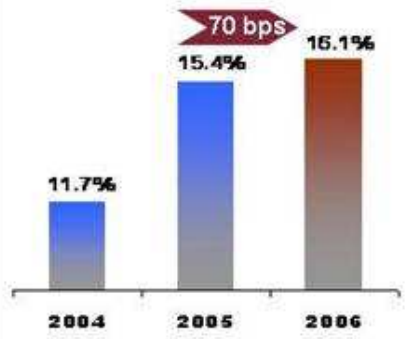
Revenue Breakdown – FY'06



Growth Opportunities

- Increase share of large corporate segment (Aon Global)
- Emerging markets
  - China, Russia, India, Latin America
- Facultative Reinsurance
- Enhance practice groups
  - Construction, Environmental
- Captive management
- Capital markets transactions
- New product development

Pretax Margin %*



* see Appendix for non-GAAP reconciliation

Consulting

Highlights

- #2 US Employee Benefits
- #3 Global Employee Benefits
- Compensation consulting
- Management consulting
- Strategic Human Resources consulting

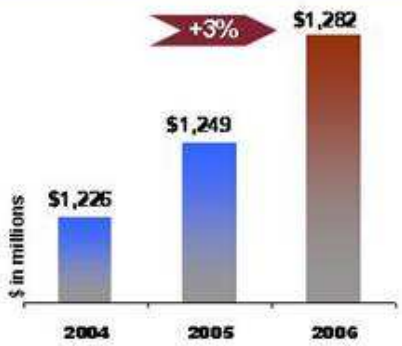
Key Initiatives

- Complete rollout of centralized global sales platform
  - Drive local market planning
  - Manage pipeline and productivity
- Rollout worldwide brand strategy
- Drive global service delivery strategy

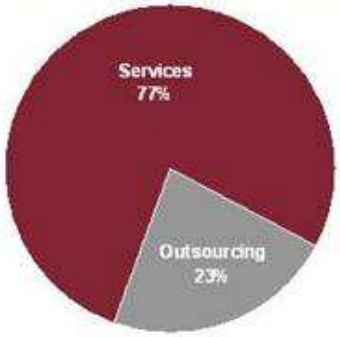
Growth Opportunities

- Financial Advisory and Litigation (FALC)
- Global benefit management services
- Pension and compensation consulting
- Expansion of Asia market presence

Total Revenue*



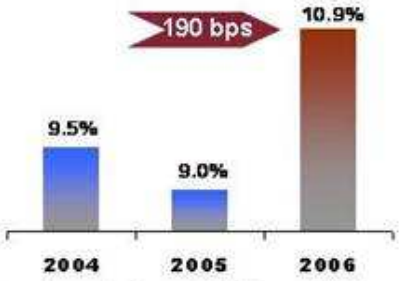
Revenue Breakdown – FY'06



How does Consulting fit with Brokerage?

- Offers middle market clients full service risk solutions – capital and people
- Employee benefits as an integrated product – including Health and Welfare, Retirement brokerage and outsourcing
- Large corporate segment migrates to best-in-class integrated solution
- Companies increasingly linking benefits and compensation

Pretax Margin %*



* see Appendix for non-GAAP reconciliation

Underwriting

Accident & Health and Life

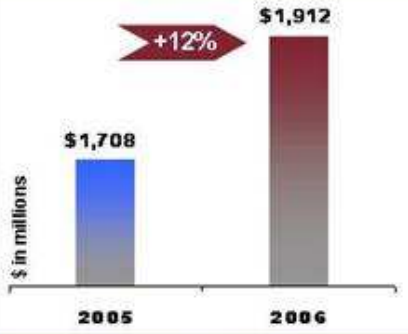
Highlights

- Global sales force with 6,700 staff and field agents for AH&L business
- Distribution through door-to-door exclusive career agents
- Clients are primarily middle-income consumers
- Major products include accident, supplemental health, short-term disability and long-term health care

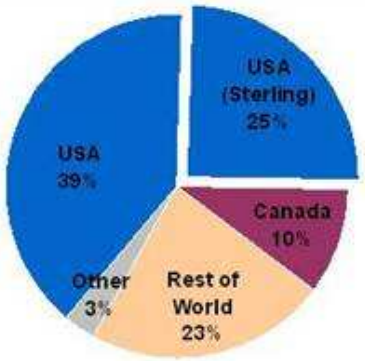
Growth Initiatives

- Medicare supplement products (Sterling)
- Expansion in international markets
- Emphasize cross-sell in domestic markets
- Drive low-cost accident policies for worksite
- Increase use of targeted direct mail

Net Written Premiums

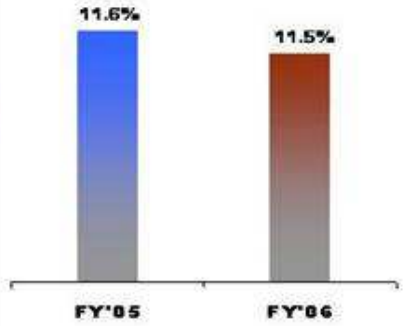


Net Written Premiums – FY'06

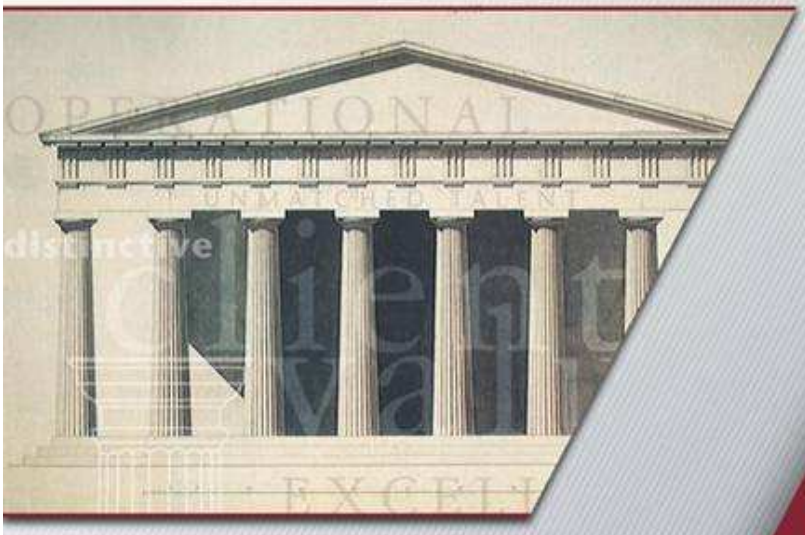


Key Statistics	2005	2006
Stat Combined Ratio	92.9%	94.0%
GAAP Loss Ratio	52.1%	54.0%
GAAP Equity ($ millions)	$1,482	$1,463

Pretax Margin %



Operational Excellence



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Restructuring Program is Beginning to Deliver Benefits

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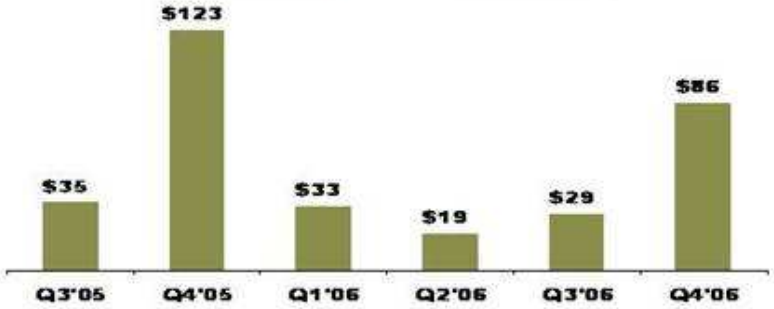
Restructuring Program

- Company-wide program, but primarily focused on Brokerage in United Kingdom and United States
- Total program expected to result in net headcount reduction of approximately 3,600 employees
- Total restructuring charges of approximately $365 million, with $325 million incurred through fourth quarter 2006
- Total annualized savings of approximately $280 million anticipated by 2008

RESTRUCTURING CHARGES
($ millions)

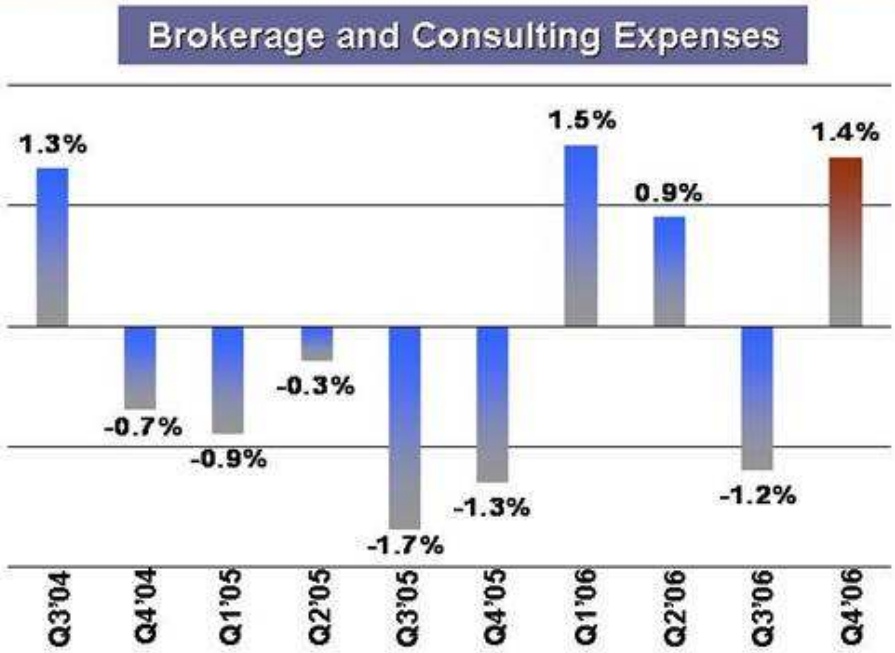


RESTRUCTURING SAVINGS
($ millions)

$119 million in 2006

Operating Expenses are Being Rationalized

- Excludes acquisitions, dispositions, foreign currency, settlements and other unusual items
- 6 of last 10 quarters are negative versus prior year quarter
- Average over last 10 quarters is (0.1%)

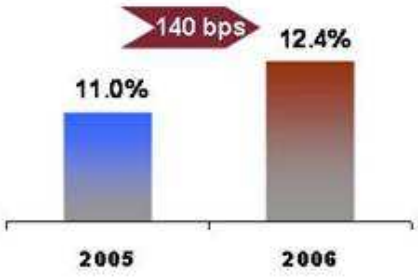


While Absorbing Investments in New Markets, Talent & Technology

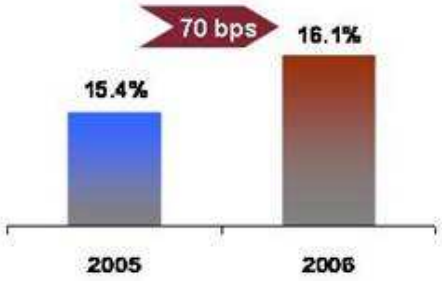
Margin Improvement Across all Segments

Full Year 2006

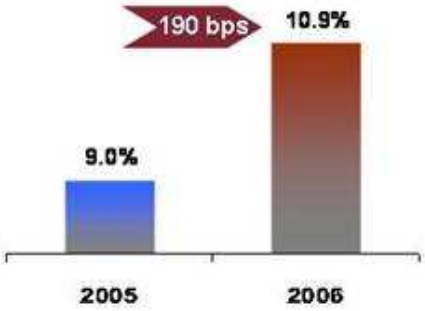
Total Pretax Margin*



Risk & Insurance Brokerage*

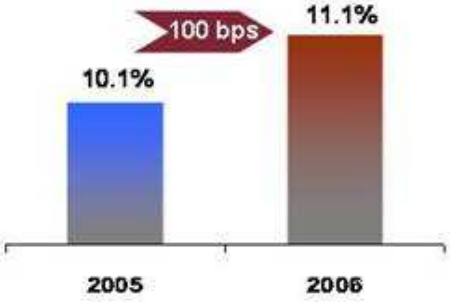


Consulting*



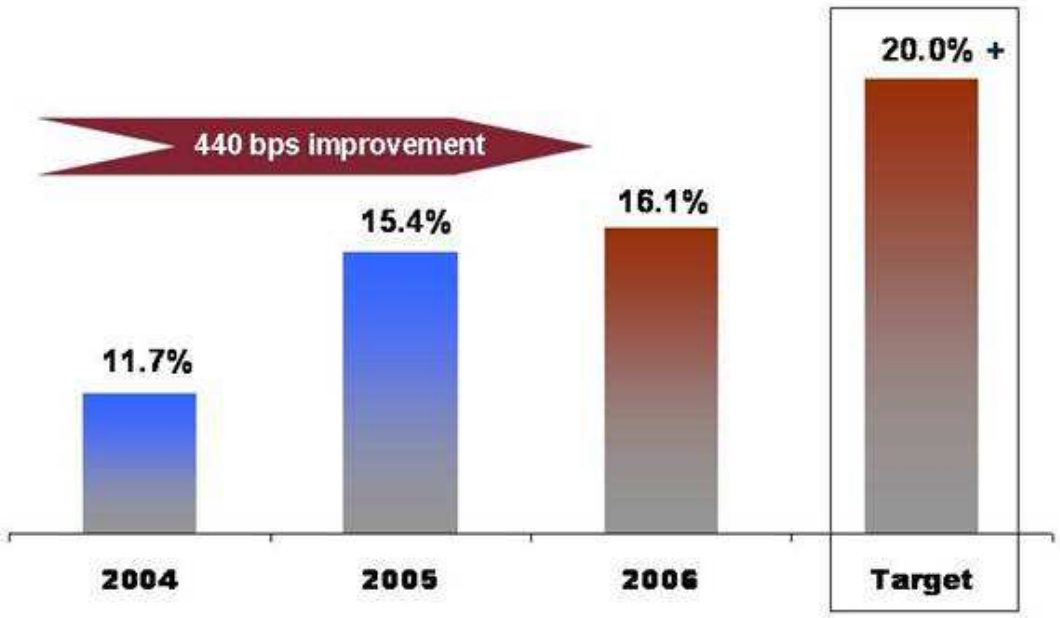
* see Appendix for non-GAAP reconciliation

Underwriting*



Making Progress Towards our 20%+ Target

RISK & INSURANCE BROKERAGE (Pretax Margin %)*

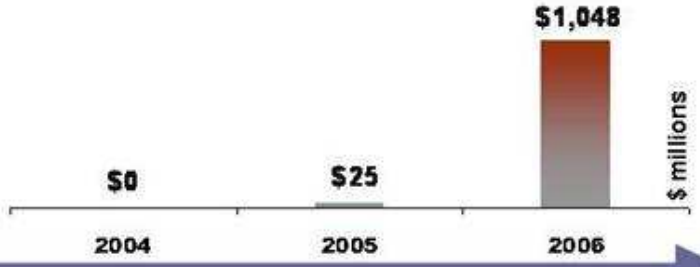


* see Appendix for non-GAAP reconciliation

Excess Capital is being Distributed to Shareholders, Funding Pension Liability and Acquisitions

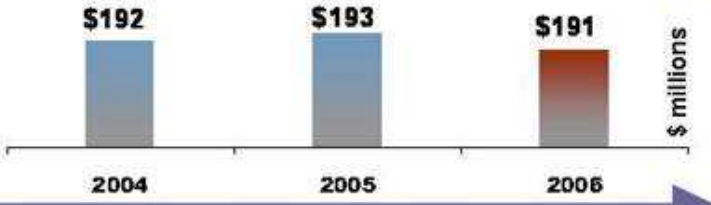
Share Repurchase

- Repurchased 28.4 million shares or $1.0 billion of stock in 2006
- Repurchased additional 6.9 million shares or $246 million of stock as of 02/08/07
- Approximately $680 million available for repurchase under authorized program as of 02/08/07



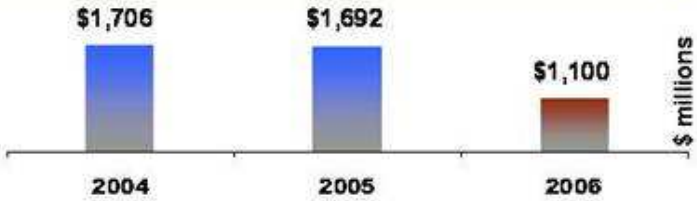
Dividends

- Annual dividend of $0.60 cents per share, or 1.7% based on 02/08/07 share price



Under Funded Pension Plans

- Major pension plans were under funded by $1.1 billion at 12/31/06 (preliminary)
- Contributed approximately $350 million of cash and non-cash assets in 2006
- Anticipate contributing between $200 million and $300 million of cash in 2007



Investments in New Markets, Talent & Technology

New Markets

- Fill geographic gaps
- Product & service expansion
- Enhanced practice groups

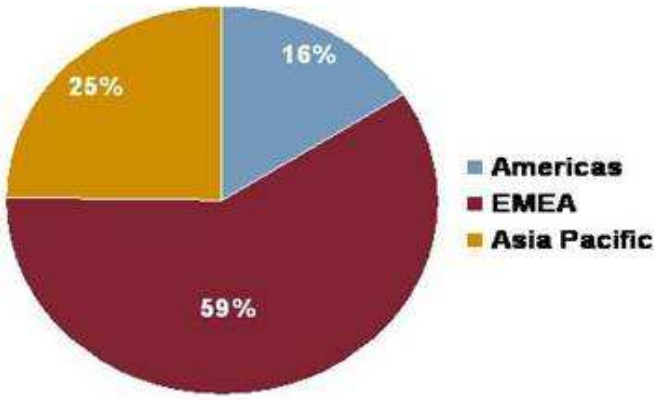
Talent

- Financial Advisory & Litigation (FALC)
- Facultative Reinsurance
- Added over 150 colleagues

Technology

- Client facing
- Core infrastructure

$150 million of acquisitions in 2006



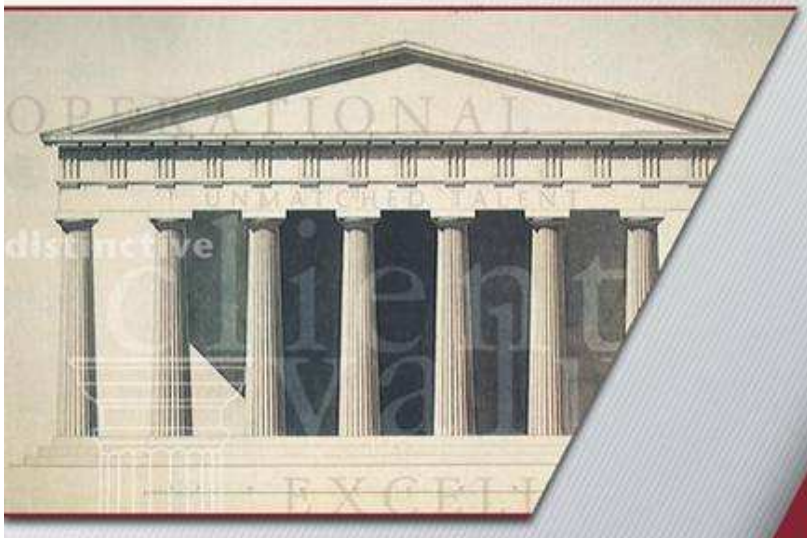
Primarily Focused in Brokerage

Summary

- Magnitude and complexity of risk is increasing
- Leveraging our global network of resources and capabilities
- Improving employee productivity and efficiency
- Margins are increasing through cost-reduction efforts
- Strong balance sheet and increasing cash flow generation provides financial flexibility
- Returning excess capital through share repurchases & dividends

-- Industry-leading broker of primary risk insurance creating value through integration of global capabilities, margin expansion and effective capital allocation –

Appendix



Appendix – Page 1
Reconciliation of Revenue & Operating Income

Fourth Quarter 2006

(millions)	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Unallocated Income & Expense	Total
	Fourth Quarter Ended December 31, 2006				
Revenue as reported	$ 1,522	$ 364	$ 527	$ -	$ 2,413
Revenue as adjusted	$ 1,522	$ 364	$ 527	$ -	$ 2,413
Income (loss) from continuing operations before provision for income tax - as reported	$ 197	$ 49	$ 37	$ (33)	$ 250
Restructuring charges	70	7	8	1	86
Income (loss) from continuing operations before provision for income tax - as adjusted	$ 267	$ 56	$ 45	$ (32)	$ 336
Income from continuing operations before provision for income tax - margins as adjusted	17.5%	15.4%	8.5%	N/A	13.9%

Appendix – Page 2
Reconciliation of Revenue & Operating Income

AON

Fourth Quarter 2005

(millions)	Fourth Quarter Ended December 31, 2005				
	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Unallocated Income & Expense	Total
Revenue as reported	$ 1,422	$ 336	$ 483	$ 6	$ 2,247
Contingent commissions	(4)	(3)	-	-	(7)
Endurance warrants	-	-	-	(8)	(8)
Revenue as adjusted	$ 1,418	$ 333	$ 483	$ (2)	$ 2,232
Income (loss) from continuing operations before provision for income tax - as reported	$ 127	$ 40	$ 25	$ (50)	$ 142
Restructuring charges	114	4	3	2	123
Contingent commissions	(4)	(3)	-	-	(7)
Endurance warrants	-	-	-	(8)	(8)
Income (loss) from continuing operations before provision for income tax - as adjusted	$ 237	$ 41	$ 28	$ (56)	$ 250
Income from continuing operations before provision for income tax - margins as adjusted	16.7%	12.3%	5.8%	N/A	11.2%

Appendix – Page 3
Reconciliation of Revenue & Operating Income

AON

Full Year 2006

(millions)	Twelve Months Ended December 31, 2006				
	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Unallocated Income & Expense	Total
Revenue as reported	$ 5,628	$ 1,282	$ 2,046	$ (2)	$ 8,954
Gain on sale of Cambridge preferred stock investment	(35)	-	-	-	(35)
Contingent commissions	(15)	-	-	-	(15)
Endurance warrants	-	-	-	17	17
Revenue as adjusted	$ 5,578	$ 1,282	$ 2,046	$ 15	$ 8,921
Income (loss) from continuing operations before provision for income tax - as reported	$ 842	$ 120	$ 138	$ (178)	$ 922
Restructuring charges	136	20	8	3	167
Contingent commissions	(15)	-	-	-	(15)
Gain on sale of Cambridge preferred stock investment	(35)	-	-	-	(35)
Gain on sale of building in Spain	(30)	-	-	-	(30)
Property & Casualty reserve adjustments	-	-	81	-	81
Endurance warrants	-	-	-	17	17
Income (loss) from continuing operations before provision for income tax - as adjusted	$ 898	$ 140	$ 227	$ (158)	$ 1,107
Income from continuing operations before provision for income tax - margins as adjusted	16.1%	10.9%	11.1%	N/A	12.4%

Appendix – Page 4
Reconciliation of Revenue & Operating Income

AON

Full Year 2005

(millions)	Twelve Months Ended December 31, 2005				
	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Unallocated Income & Expense	Total
Revenue as reported	$ 5,367	$ 1,255	$ 1,875	$ (1)	$ 8,496
Contingent commissions	(26)	(6)	-	-	(32)
UK installment revenue	(23)	-	-	-	(23)
Endurance warrants	-	-	-	(10)	(10)
Revenue as adjusted	$ 5,318	$ 1,249	$ 1,875	$ (11)	$ 8,431
Income (loss) from continuing operations before provision for income tax - as reported	$ 704	$ 110	$ 186	$ (189)	$ 811
Restructuring charges	143	8	3	4	158
Contingent commissions	(26)	(6)	-	-	(32)
UK installment revenue	(23)	-	-	-	(23)
UK claims servicing	22	-	-	-	22
Endurance warrants	-	-	-	(10)	(10)
Income (loss) from continuing operations before provision for income tax - as adjusted	$ 820	$ 112	$ 189	$ (195)	$ 926
Income from continuing operations before provision for income tax - margins as adjusted	15.4%	9.0%	10.1%	NA	11.0%

Appendix – Page 5
Reconciliation of Revenue & Operating Income

Full Year 2004 Brokerage and Consulting

(millions)	Twelve Months Ended December 31, 2004	
	Risk and Insurance Brokerage Services	Consulting
Revenue as reported	$ 5,468	$ 1,247
Contingent commissions	(110)	(21)
Revenue as adjusted	$ 5,358	$ 1,226
Income (loss) from continuing operations before provision for income tax - as reported	$ 565	$ 105
NYAG & Daniel settlements	187	33
Contingent commisions	(110)	(21)
Other	(15)	-
Income (loss) from continuing operations before provision for income tax - as adjusted	$ 627	$ 117
Income from continuing operations before provision for income tax - margins as adjusted	11.7%	9.5%

Appendix – Page 6
Reconciliation of Net Income from Continuing Operations

Reconciliation of the Impact of Non-GAAP Measures on Diluted Earnings Per Share
Fourth Quarter and Twelve Months Ended December 31, 2006 and 2005

	Twelve Months Ended		
	Dec. 31, 2006	Dec. 31, 2005	Percent Change
Diluted earnings per share from continuing operations - as reported	$ 1.86	$ 1.68	11 %
After tax earnings per share adjustments:			
Restructuring charges	0.32	0.30	
Contingent commissions	(0.03)	(0.06)	
Nonrecurring tax adjustments	(0.08)	(0.16)	
Gain on sale of Cambridge preferred stock investment	(0.07)	-	
Property & Casualty reserve adjustments	0.15	-	
Gain on sale of building in Spain	(0.06)	-	
UK installment revenue	-	(0.04)	
UK claims servicing	-	0.04	
Endurance warrants	0.03	(0.02)	
Total after tax earnings per share adjustments	0.26	0.06	
Diluted earnings per share from continuing operations - as adjusted	2.12	1.74	22
Diluted earnings per share from discontinued operations - as reported	0.27	0.49	(45)
CPG reserve adjustment	0.04	-	
CPG gain on sale	(0.02)	-	
AWG gain on sale	(0.01)	-	
Deferred tax adjustments attributable to AWG	-	0.08	
Diluted earnings per share from discontinued operations - as adjusted	0.28	0.57	(51)
Total diluted earnings per share - as adjusted	$ 2.40	$ 2.31	4 %
Diluted average common and common equivalent shares outstanding (millions)	342.1	341.5	