AON PLC

FORM 10-Q
(Quarterly Report)

Filed 08/14/98 for the Period Ending 06/30/98

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

AON CORP

FORM 10-Q
(Quarterly Report)

Filed 8/14/1998 For Period Ending 6/30/1998

Address	200 EAST RANDOLPH STREET
	CHICAGO, Illinois 60601
Telephone	312-381-1000
CIK	0000315293
Industry	Insurance (Miscellaneous)
Sector	Financial
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

- OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	36-3051915
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
123 N. WACKER DR, CHICAGO, ILLINOIS	60606
(Address of Principal Executive Offices)	(Zip Code)

(312) 701-3000

(Registrant's Telephone Number)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Number of shares of common stock outstanding:

Class	No. Outstanding as of 6-30-98
$1.00 par value Common	168,856,896

PART 1
FINANCIAL INFORMATION
AON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(millions)	AS OF JUNE 30, 1998	AS OF DEC. 31, 1997
ASSETS	(UNAUDITED)	
INVESTMENTS		
Fixed maturities at fair value	$ 3,076.8	$ 3,143.6
Equity securities at fair value	800.4	806.3
Short-term investments	2,363.1	1,697.7
Other investments	304.4	274.5
TOTAL INVESTMENTS	6,544.7	5,922.1
CASH	1,034.4	1,084.7
RECEIVABLES		
Insurance brokerage and consulting services	5,564.2	5,320.5
Premiums and other	1,108.7	862.6
Accrued investment income	60.8	66.8
TOTAL RECEIVABLES	6,733.7	6,249.9
INTANGIBLE ASSETS	3,273.6	3,094.5
OTHER ASSETS	2,258.8	2,340.0
TOTAL ASSETS	$ $ 19,845.2	$ 18,691.2

	AS OF JUNE 30, 1998	AS OF DEC. 31, 1997
LIABILITIES AND EQUITY	(UNAUDITED)	
POLICY LIABILITIES		
Future policy benefits	$ 946.7	$ 942.6
Policy and contract claims	797.5	809.4
Unearned and advance premiums	1,874.4	1,869.7
Other policyholder funds	1,032.9	828.1
TOTAL POLICY LIABILITIES	4,651.5	4,449.8
GENERAL LIABILITIES		
Insurance premiums payable	6,941.1	6,379.8
Commissions and general expenses	1,415.2	1,488.8
Short-term borrowings	931.2	764.2
Notes payable	624.5	637.1
Other liabilities	1,406.6	1,299.4
TOTAL LIABILITIES	15,970.1	15,019.1
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE PREFERRED STOCK	50.0	50.0

COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED CAPITAL SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY THE COMPANY'S JUNIOR SUBORDINATED DEBENTURES	800.0	800.0
STOCKHOLDERS' EQUITY		
Common stock - $1 par value	171.5	171.5
Paid-in additional capital	395.4	377.0
Net unrealized investment gains	176.6	189.0
Net foreign exchange losses	(91.4)	(85.6)
Retained earnings	2,654.8	2,463.4
Less - Treasury stock at cost	(73.2)	(93.2)
Deferred compensation	(208.6)	(200.0)
TOTAL STOCKHOLDERS' EQUITY	3,025.1	2,822.1
TOTAL LIABILITIES AND EQUITY	$ 19,845.2	$ 18,691.2

See the accompanying notes to the condensed consolidated financial statements.

Aon CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(millions except per share data)	Second Quarter Ended June 30, 1998	June 30, 1997	Percent Change
Revenue			
Brokerage commissions and fees	$ 1,059.5	$ 885.0	19.7%
Premiums and other	423.4	421.9	0.4
Investment income	140.1	117.6	19.1
Total revenue	1,623.0	1,424.5	13.9
Expenses			
General expenses	1,104.2	980.7	12.6
Benefits to policyholders	226.8	215.6	5.2
Interest expense	21.2	15.9	33.3
Amortization of intangible assets	31.2	33.4	(6.6)
Special charges	--	27.0	--
Total expenses	1,383.4	1,272.6	8.7
Income Before Income Tax and Minority Interest	239.6	151.9	57.7
Provision for income tax	89.8	57.0	57.5
Income Before Minority Interest	149.8	94.9	57.9
Minority interest - 8.205% mandatorily redeemable preferred capital securities	(10.3)	(10.7)	N/A
Net Income	$ 139.5	$ 84.2	65.7%
Net Income Available for Common Stockholders	$ 138.8	$ 80.9	71.6%
Net Income Per Share:			
Basic net income per share	$ 0.82	$ 0.48	70.8%
Dilutive net income per share	$ 0.81	$ 0.48	68.8%
Cash dividends paid on common stock	$ 0.28	$ 0.26	
Dilutive average common and common equivalent shares outstanding	172.2	169.6	

(millions except per share data)	Six Months Ended June 30, 1998	June 30, 1997	Percent Change
Revenue			
Brokerage commissions and fees	$ 2,055.7	$ 1,726.7	19.1%
Premiums and other	840.2	816.3	2.9
Investment income	288.6	235.8	22.4
Total revenue	3,184.5	2,778.8	14.6
Expenses			
General expenses	2,152.4	1,923.6	11.9
Benefits to policyholders	452.7	420.8	7.6
Interest expense	41.3	30.6	35.0
Amortization of intangible assets	60.7	64.7	(6.2)
Special charges	--	172.0	--
Total expenses	2,707.1	2,611.7	3.7
Income Before Income Tax and Minority Interest	477.4	167.1	185.7
Provision for income tax	179.0	62.7	185.5
Income Before Minority Interest	298.4	104.4	185.8
Minority interest - 8.205% mandatorily redeemable preferred capital securities	(20.6)	(19.5)	N/A

Net Income	$ 277.8	$ 84.9	227.2%
Net Income Available for Common Stockholders	$ 276.5	$ 78.2	253.6%
Net Income Per Share:			
Basic net income per share	$ 1.64	$ 0.47	248.9%
Dilutive net income per share	$ 1.61	$ 0.46	250.0%
Cash dividends paid on common stock	$ 0.54	$ 0.50	
Dilutive average common and common equivalent shares outstanding	171.7	169.5	

See the accompanying notes to the condensed consolidated financial statements.

Aon CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
CASH PROVIDED BY OPERATING ACTIVITIES	$ 784.2	$ 294.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments		
Fixed maturities		
Maturities	59.2	61.3
Calls and prepayments	36.1	72.9
Sales	1,748.7	526.6
Equity securities	1,481.2	639.1
Other investments	26.8	32.9
Purchase of investments		
Fixed maturities	(1,776.1)	(757.9)
Equity securities	(1,485.5)	(655.8)
Other investments	(109.3)	(38.1)
Sale (purchase) of short-term investments - net	(703.0)	285.5
Acquisition of subsidiaries	(263.0)	(1,288.8)
Acquired fiduciary funds from acquisitions	-	734.0
Property and equipment and other	(105.0)	(28.7)
CASH USED BY INVESTING ACTIVITIES	(1,089.9)	(417.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Treasury stock transactions - net	14.9	21.9
Issuance of short-term borrowings - net	167.0	258.0
Issuance of mandatorily redeemable preferred capital securities	-	800.0
Repayment of long-term debt	(12.7)	(71.8)
Interest sensitive life, annuity and investment contracts		
Deposits	221.0	154.1
Withdrawals	(48.3)	(6.8)
Cash dividends to stockholders	(91.5)	(88.9)
CASH PROVIDED BY FINANCING ACTIVITIES	250.4	1,066.5
EFFECT OF EXCHANGE RATE CHANGES ON CASH	5.0	(22.3)
INCREASE (DECREASE) IN CASH	(50.3)	921.5
CASH AT BEGINNING OF PERIOD	1,084.7	410.1
CASH AT END OF PERIOD	$ 1,034.4	$ 1,331.6

See the accompanying notes to condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Accounting Principles

The financial results included in this report are stated in conformity with generally accepted accounting principles and are unaudited but include all normal recurring adjustments which the Registrant ("Aon") considers necessary for a fair presentation of the results for such periods. These interim figures are not necessarily indicative of results for a full year as further discussed below.

Refer to the consolidated financial statements and notes in the Annual Report to Stockholders for the year ended December 31, 1997 for additional details of Aon's financial position, as well as a description of the accounting policies which have been continued without material change. The details included in the notes have not changed except as a result of normal transactions in the interim and the events mentioned in the footnotes below.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Statements of Financial Accounting Standards (SFAS)

Comprehensive Income

As of January 1, 1998, Aon adopted the interim reporting requirements of Financial Accounting Standards Board (FASB) Statement No. 130 (Reporting Comprehensive Income) as presented below. Statement No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on Aon's net income or stockholders' equity. Statement No. 130 requires net unrealized investment gains or losses on Aon's available-for-sale securities and net foreign exchange gains or losses, which currently are reported in stockholders' equity, to be included in accumulated other comprehensive income and the disclosure of comprehensive income. When Aon adopts the fiscal year end reporting requirements of Statement No. 130 in its December 31, 1998 financial statements, the totals of accumulated other comprehensive income items and comprehensive income (which includes net income), will be displayed separately and prior year financial statements will be reclassified to conform to the requirements of Statement No. 130.

The components of comprehensive income, net of related tax, for the second quarter ended June 30, 1998 and 1997 are as follows:

(millions)	1998	1997
Net income	$ 139.5	$ 84.2
Net unrealized investment gains(losses)	(5.8)	40.2
Net foreign exchange losses	(8.1)	(11.5)
Comprehensive income	$ 125.6	$ 112.9

The components of comprehensive income, net of related tax, for the six months ended June 30, 1998 and 1997 are as follows:

(millions)	1998	1997
Net income	$ 277.8	$ 84.9
Net unrealized investment gains(losses)	(12.4)	6.1
Net foreign exchange losses	(5.8)	(47.1)
Comprehensive income	$ 259.6	$ 43.9

The components of accumulated other comprehensive income, net of related tax, at June 30, 1998 and December 31, 1997, are as follows:

(millions)	1998	1997
Net unrealized investment gains	$ 176.6	$ 189.0
Net foreign exchange losses	(91.4)	(85.6)
Accumulated other comprehensive income	$ 85.2	$ 103.4

Segments Disclosure

In 1997, the FASB issued Statement No. 131 (Disclosures about Segments of an Enterprise and Related Information). Statement No. 131 establishes standards for providing disclosures related to products and services, geographic areas, and major customers. Aon will adopt this statement in its fourth quarter 1998 financial statements as required. Implementation of this statement is not expected to have a material effect on Aon's financial statements.

Derivatives Disclosure

In June 1998, the FASB issued Statement No. 133 (Accounting for Derivative Instruments and Hedging Activities). This Statement is required to be adopted in fiscal years beginning after June 15, 1999 with early adoption permitted as of the beginning of any quarter subsequent to its issuance. Aon has not yet decided when it will adopt the new statement. Statement No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities and will require Aon to recognize all derivatives on the statement of financial position at fair value. Aon has not yet determined the effect this statement will have on Aon's earnings and financial position.

3. Capital Stock

In first half 1998, Aon reissued 538,500 shares of common stock from treasury for employee benefit plans. Aon purchased 85,600 shares of its common stock at a total cost of $4.3 million during first half 1998. In addition, Aon reissued 381,900 shares of common stock from treasury in connection with business combinations. There were 2.7 million shares of common stock held in treasury at June 30, 1998.

4. Capital Securities

In 1997, Aon Capital A, a subsidiary trust of Aon, issued $800 million of 8.205% mandatorily redeemable preferred capital securities (capital securities). The sole asset of Aon Capital A is $824 million aggregate principal amount of Aon's 8.205% Junior Subordinated Deferrable Interest Debentures due January 1, 2027.

5. Business Combinations

In first half 1998, operating results were impacted by the insurance brokerage acquisitions of Le Blanc de Nicolay (the largest reinsurance broker in France) and Gil y Carvajal (the largest retail and reinsurance broker in Spain). These acquisitions were accounted for by the purchase method and their effect was not material to Aon's consolidated financial statements.

In third quarter 1998, Aon anticipates the completion of certain insurance brokerage acquisitions. These acquisitions will be accounted for by the purchase method and their effect is not anticipated to be material to Aon's consolidated financial statements.

6. Earnings Per Share

Earnings per share is computed in accordance with FASB Statement No. 128 (Earnings Per Share) and is calculated as follows:

	Second Quarter Ended	
(millions except per share data)	June 30, 1998	June 30, 1997
Net income	$ 139.5	$ 84.2
8% preferred stock dividends	-	2.7
Redeemable preferred stock dividends	0.7	0.6
Net income for dilutive and basic	$ 138.8	$ 80.9
Basic shares outstanding	169.3	167.6
Common stock equivalents	2.9	2.0
Dilutive potential common shares	172.2	169.6
Basic earnings per share	$0.82	$0.48
Dilutive earnings per share	$0.81	$0.48

(millions except per share data)	Six Months Ended June 30, 1998	June 30, 1997
Net income	$ 277.8	$ 84.9
8% preferred stock dividends	-	5.4
Redeemable preferred stock dividends	1.3	1.3
Net income for dilutive and basic	$ 276.5	$ 78.2
Basic shares outstanding	168.9	167.3
Common stock equivalents	2.8	2.2
Dilutive potential common shares	171.7	169.5
Basic earnings per share	$1.64	$0.47
Dilutive earnings per share	$1.61	$0.46

7. Alexander & Alexander Services Inc. (A&A) Discontinued Operations

A&A discontinued its insurance underwriting operations in 1985, some of which were then placed into run-off, the remainder sold in 1987. In connection with those sales, A&A provided indemnities to the purchaser for various estimated and potential liabilities, including provisions to cover future losses attributable to insurance pooling arrangements, a stop-loss reinsurance agreement, and actions or omissions by various underwriting agencies previously managed by an A&A subsidiary. As of June 30, 1998, the liabilities associated with the foregoing indemnities and liabilities of insurance underwriting subsidiaries that are currently in run-off were included in other liabilities in the accompanying condensed consolidated statement of financial position and amounted to $152 million. Such liabilities are net of reinsurance recoverables and other assets of $184 million.

8. Contingencies

Aon and its subsidiaries are subject to numerous claims and lawsuits that arise in the ordinary course of business. Some of these cases are being litigated in jurisdictions which have judicial precedents and evidentiary rules which are generally believed to favor individual plaintiffs against corporate defendants. The damages that may be claimed in these and other jurisdictions are substantial, including in many instances claims for punitive or extraordinary damages. Accruals for these lawsuits have been provided to the extent that losses are deemed probable and are estimable.

At the time of Aon's acquisition of A&A in January 1997, A&A was facing various legal claims, several of which remain ongoing. While the possibility of substantial exposure remains, based on current facts and circumstances, Aon believes the possibility of material loss resulting from these exposures is remote.

Although the ultimate outcome of these suits cannot be ascertained and liabilities in indeterminate amounts may be imposed on Aon or its subsidiaries, on the basis of present information, availability of insurance coverages and advice received from counsel, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of Aon.

REVENUE AND INCOME BEFORE INCOME TAX FOR SECOND QUARTER AND FIRST HALF 1998

CONSOLIDATED RESULTS

GENERAL

Certain amounts in the prior years' condensed consolidated financial statements have been reclassified to conform to the 1998 presentation.

Brokerage commissions and fees increased $174.5 million or 19.7% and $329 million or 19.1% in second quarter and first half 1998, respectively, primarily reflecting business combination activity related to the acquisitions of Le Blanc de Nicolay (Le Blanc) in second quarter 1998, Gil y Carvajal in first quarter 1998, Jauch & Hubener in fourth quarter 1997 and, to a lesser extent, Minet and certain other 1997 brokerage acquisitions.

Premiums and other is primarily related to insurance underwriting operations. Premiums and other increased $1.5 million or 0.4% and $23.9 million or 2.9% in second quarter and first half 1998, respectively, compared with the same period last year. Extended warranty premiums earned increased $7.9 million or 6.2% in the quarter reflecting continued growth, primarily in the appliance and electronic lines. Direct sales premiums earned increased 0.6% as a result of changes in the consumer insurance market. The runoff of North American auto credit business partially offset this growth in premiums earned.

Investment income, which includes related expenses and realized investment gains, increased $22.5 million or 19.1% and $52.8 million or 22.4% in the second quarter and first half 1998, respectively, when compared to prior year. Investment income growth was primarily related to insurance brokerage and consulting acquisitions in 1998 and in second half 1997. Higher levels of income received on private equity and other investment holdings in second quarter 1998 and first half 1998 contributed to overall investment income growth when compared to prior year. Investment income from insurance brokerage and consulting operations, primarily relating to fiduciary funds, increased to $50 million in second quarter 1998 from $38 million in 1997, and to $94 million in first half 1998 from $77 million in 1997, due to brokerage acquisition activity and internal growth.

Total revenue increased $198.5 million or 13.9% and $405.7 million or 14.6% in the second quarter and first half 1998, respectively, primarily attributable to brokerage acquisition activity .

Benefits to policyholders increased $11.2 million or 5.2% and $31.9 million or 7.6% million in second quarter and first half 1998, respectively, reflecting a higher volume of new extended warranty business. This growth was partially offset by the run-off of auto credit business as planned.

In second quarter 1997, Aon reported special charges of $27 million ($16.9 million after-tax) to recognize investment losses incurred at Alexander & Alexander Services Inc. (A&A) before Aon acquired A&A. At Aon's acquisition date, the carrying value of certain securities in A&A's portfolio was overstated by the previously unrecognized investment losses.

In first quarter 1997, Aon reported special charges of $145 million ($90.6 million after-tax) related to the restructuring of Aon's brokerage operations as a result of the acquisition of A&A. The special charges included costs related to severance and other costs and the consolidation of real estate space. The 1997 special charges were reflected as a separate component of total expenses in the condensed consolidated statements of operations.

Total expenses increased $110.8 million or 8.7% and $95.4 million or 3.7% in second quarter and first half 1998, respectively, when compared to prior year. The increase reflects the inclusion of 1997 pretax special charges. In first half 1998, restructuring liabilities related to 1997 special charges have been reduced as planned, and reflect payments on those special charges and valuation adjustments related to recent acquisitions. Total expenses, excluding the 1997 special charges, increased 11.1% and 11% for the second quarter and first half 1998, respectively. Income before income tax increased $87.7 million or 57.7% in second quarter 1998 and $310.3 million or 185.7% in first half 1998 when compared to prior year, primarily due to the inclusion of special charges in first half 1997. Excluding special charges, income before income tax increased 33.9% and 40.8% when compared to second quarter and first half 1997, largely due to growth in the insurance brokerage and consulting services segment and to the achievement of cost savings resulting from the consolidation of brokerage operations.

MAJOR LINES OF BUSINESS

GENERAL

For purposes of the following line of business discussions, comparisons against last year's results exclude special charges. Management anticipates that the full benefit of cost savings on brokerage operations will continue to be achieved throughout the remainder of 1998. In addition, references to income before income tax exclude minority interest related to the capital securities.

INSURANCE BROKERAGE AND CONSULTING SERVICES

First half 1998 revenue and income before income tax have been impacted by the acquisitions of Le Blanc and Gil y Carvajal in second and first quarter 1998, respectively, and the acquisitions of Jauch & Hubener, Minet and certain other brokerage acquisitions in third and fourth quarter 1997.

Insurance and other services (retail, reinsurance and wholesale brokerage) revenue increased $175 million or 22.5% and $313.5 million or 20.5% in the second quarter and first half 1998, respectively, when compared with the same period last year, largely due to acquisition activity. Insurance and other services continued to reflect highly competitive property and casualty pricing.

Consulting provides a full range of employee benefits and compensation consulting, specialized employee assessment and training programs, and administrative services. This business showed revenue growth of $11 million or 7.6% and $32 million or 11.7% for the second quarter and first half 1998, respectively, when compared to prior year, primarily due to second half 1997 acquisitions. A decline in human resources consulting revenue partially offset growth in the quarter.

Overall, revenue for the insurance brokerage and consulting services segment increased $186 million or 20.2% and $345.5 million or 19.2% in the second quarter and first half 1998, respectively. Acquisitions made in 1998 and second half 1997 accounted for a majority of the above mentioned revenue growth in the quarter. Excluding the impact of acquisitions, revenue related to brokerage core businesses grew approximately 3% in the quarter and 4% in the first half in a very competitive environment. Income before income tax increased $69.5 million or 54.6% and $144.2 million or 61.1% when compared to second quarter and first half 1997, respectively. The brokerage segment continues to be impacted by a soft property and casualty market, particularly in the reinsurance brokerage business. Pretax margins in this segment improved for the quarter reflecting cost savings resulting from the consolidation of businesses acquired in 1997.

U.S./INTERNATIONAL RESULTS

Second quarter 1998 international insurance brokerage and consulting services revenue represents 50% of the worldwide total and international income before income tax represents 53% of the worldwide total. International brokerage revenue of $554.3 million increased 34.5% for the second quarter, primarily reflecting 1998 and second half 1997 acquisitions. International brokerage income before income tax increased 62.2% for the second quarter reflecting the above mentioned acquisition activity. International brokerage revenues for retail brokerage services generally are strongest during the first quarter of the year, particularly for continental Europe, while expenses are incurred on a more even basis throughout the year.

INSURANCE UNDERWRITING

The insurance underwriting line of business primarily provides direct sales life and accident and health products, and extended warranty products to individuals. Revenue increased $8.8 million or 1.9% and $38.4 million or 4.2% for the second quarter and first half 1998, respectively, when compared to prior year, primarily due to growth in the U.S. electronic and appliance lines and in the international mechanical extended warranty line. Direct sales business also continued to grow modestly.

Pretax income from insurance underwriting decreased $1.4 million or 2% and $1.7 million or 1.3% in the second quarter and first half 1998, respectively, when compared with last year reflecting planned start-up costs in the worksite marketing initiative, and the run-off of auto credit business and specialty liability programs. Overall, benefit and expense margins in second quarter 1998 did not suggest any significant shift in operating trends. Extended warranty profits improved in the quarter, primarily due to the mechanical extended warranty line of business.

U.S./INTERNATIONAL RESULTS

Second quarter 1998 U.S. insurance underwriting revenue represents 69% of the worldwide total and U.S. income before income tax represents 71% of the worldwide total. Second quarter U.S. insurance underwriting revenue and income before income tax decreased 1.2% and 3%, respectively, when compared to the 1997 level. Results reflect the runoff of the auto credit business and specialty liability programs. International insurance underwriting revenue of $148.3 million increased 9.6% in the quarter principally due to growth in premiums earned, primarily in the mechanical extended warranty line. International pretax income increased modestly in the quarter.

CORPORATE AND OTHER

Revenue in this category consists primarily of investment income (including realized investment gains) on capital. Insurance company investment income is allocated to the underwriting segment based on the invested assets which underlie policyholder liabilities. Excess invested assets and related investment income, which do not underlie these liabilities, are reported in this segment. Expenses include interest and other financing expenses, goodwill amortization associated with insurance brokerage and consulting acquisitions, and corporate administrative and information technology costs.

Revenue increased 13.3% or $3.7 million and 38.9% or $21.8 million in the second quarter and first half 1998, respectively, primarily due to higher levels of investment income received on private equity and other investment holdings. The loss before income tax increased $7.4 million in the quarter over the same period last year. Contributing to the higher loss in the quarter were financing costs and goodwill amortization related to acquisitions, additional interest expense on short-term and long-term debt related to acquisition financing, and costs related to investments in information technology.

Aon Corporation
MAJOR LINES OF BUSINESS

(millions except per share data)	Second Quarter Ended June 30, 1998	Second Quarter Ended June 30, 1997	Percent Change	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997	Percent Change
REVENUE						
Insurance brokerage and consulting services:						
Insurance and other services	$ 953.8	$ 778.8	22.5%	$ 1,843.9	$ 1,530.4	20.5%
Consulting	155.2	144.2	7.6	305.3	273.3	11.7
TOTAL REVENUE	1,109.0	923.0	20.2	2,149.2	1,803.7	19.2
Insurance underwriting:						
Direct sales - life, accident and health .	261.2	259.7	0.6	518.9	514.4	0.9
Extended warranty	157.0	147.8	6.2	316.4	277.2	14.1
Other	64.3	66.2	(2.9)	122.2	127.5	(4.2)
TOTAL REVENUE	482.5	473.7	1.9	957.5	919.1	4.2
Corporate and other	31.5	27.8	13.3	77.8	56.0	38.9
TOTAL REVENUE	$ 1,623.0	$ 1,424.5	13.9%	$ 3,184.5	$ 2,778.8	14.6%
INCOME BEFORE INCOME TAX						
Insurance brokerage and consulting services ...	$ 196.9	$ 127.4	54.6%	$ 380.2	$ 236.0	61.1%
Special charges	--	--	--	--	(145.0)	--
Including special charges	196.9	127.4	54.6	380.2	91.0	317.8
Insurance underwriting	69.1	70.5	(2.0)	133.6	135.3	(1.3)
Corporate and other	(26.4)	(19.0)	N/A	(36.4)	(32.2)	N/A
Special charges	--	(27.0)	--	--	(27.0)	--
Including special charges	(26.4)	(46.0)	N/A	(36.4)	(59.2)	N/A
TOTAL INCOME BEFORE INCOME TAX	$ 239.6	$ 151.9	57.7%	$ 477.4	$ 167.1	185.7%

NET INCOME FOR SECOND QUARTER AND FIRST HALF 1998

Second quarter 1998 net income was $139.5 million ($0.81 dilutive per share) compared to $84.2 million ($0.48 dilutive per share) in 1997. First half 1998 net income was $277.8 million ($1.61 dilutive per share) compared to $84.9 million ($0.46 dilutive per share) in 1997. First half 1997 net income was primarily influenced by after-tax 1997 special charges of $107.5 million ($0.64 per share) with no comparable amount in first half 1998. Basic net income per share was $0.82 and $0.48 in second quarter and $1.64 and $0.47 in first half 1998 and 1997, respectively.

The effective tax rate was 37.5% for both 1998 and 1997. Dilutive average shares outstanding for second quarter 1998 increased 1.5% when compared to 1997 primarily due to the reissuance of common shares from treasury for employee benefits.

CASH FLOW AND FINANCIAL POSITION AT THE END OF FIRST HALF 1998

Cash flows provided by operating activities in first half 1998 were $784.2 million, an increase of $489.9 million from first half 1997. The increase represents growth in the insurance brokerage businesses and the timing of the settlement of brokerage receivables and payables.

Investing activities used cash of $1.1 billion which was made available from financing and operating activities. Cash of $703 million was used during first half 1998 for the purchase of short-term investments. Cash used for acquisition activity during first half 1998 was $263 million, primarily reflecting the Gil y Carvajal and Le Blanc de Nicolay acquisitions.

Cash totaling $250.4 million was provided during first half 1998 from financing activities. The decrease of $816.1 million from first half 1997 is primarily a result of the 1997 issuance of capital securities. Cash was used to pay dividends of $90.2 million on common stock and $1.3 million on redeemable preferred stock.

Aon's operating subsidiaries anticipate that there will be adequate liquidity to meet their needs in the foreseeable future. Aon's liquidity needs are primarily for servicing its debt and for the payment of dividends on stock issues and capital securities. The businesses of Aon's operating subsidiaries continue to provide substantial positive cash flow. Brokerage cash flow has been used primarily for acquisition financing. Aon anticipates continuation of the company's positive cash flow, the ability of the parent company to access adequate short-term lines of credit, and sufficient cash flow in the long-term.

Due to the contractual nature of its insurance policyholder liabilities which are intermediate to long-term in nature, Aon has invested primarily in fixed maturities. With a carrying value of $3.1 billion, Aon's total fixed maturity portfolio is invested primarily in investment grade holdings (95.9%) and has a fair value which is 104.2% of amortized cost.

Total assets increased $1.2 billion to $19.8 billion since year-end 1997. Invested assets at June 30, 1998 increased $622.6 million from year-end levels, primarily due to higher levels of short-term investments relating to brokerage fiduciary funds . The amortized cost and fair value of less than investment grade fixed maturity investments, at June 30, 1998, were $114.4 million and $116.2 million, respectively. The carrying value of non-income producing investments in Aon's portfolio at June 30, 1998 was $69.6 million, or 1.1% of total invested assets.

Aon is continuing to update its computer systems in preparation for the Year 2000 and expects to complete its efforts by mid 1999. Aon's Year 2000 remediation cost for all lines of business is expected to be less than $50 million through 1999 and is not expected to have a material adverse impact on Aon's financial position or results of operations. Individual business units are continuing to make the necessary changes to become compliant according to their plan and their progress is being monitored by Aon's Year 2000 compliance coordinating team. If Aon's clients or vendors are unable to resolve Year 2000 compliance issues in a timely manner, a material operating and financial risk could result.

Aon uses derivative financial instruments (primarily financial futures, swaps, options and foreign exchange forwards) to: (a) hedge foreign currency translation and transaction risks and other business risks (i.e. interest rate and credit risk); (b) hedge asset price risk associated with financial instruments whose change in value is reported under SFAS 115; and (c) manage its overall asset/liability duration match. As of June 30, 1998, Aon had open contracts, related to the above, which had unrealized losses of approximately $1 million.

Insurance brokerage and consulting services receivables increased $243.7 million when compared to year-end 1997. Insurance premiums payable increased $561.3 million in first half 1998, reflecting acquisitions and the receipt of client fiduciary funds.

Short-term borrowings increased at the end of first half 1998 by $167 million when compared to year-end 1997. The increase is primarily due to the financing of acquisitions. Notes payable decreased at the end of first half 1998 by $12.6 million when compared to year-end 1997. Included in notes payable at June 30, 1998 is approximately $55 million which represents the principal amount of notes due within one year.

Stockholders' equity increased $203 million in first half 1998 to $17.91 per share, an increase of $1.11 per share since year-end 1997. This increase consisted of net income partially offset by net unrealized investment losses of $12.4 million and dividends to common stockholders of $90.2 million.

REVIEW BY INDEPENDENT AUDITORS

The condensed consolidated financial statements at June 30, 1998, and for the second quarter and first half then ended have been reviewed, prior to filing, by Ernst & Young LLP, Aon's independent auditors, and their report is included herein.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Stockholders
Aon Corporation

We have reviewed the accompanying condensed consolidated statement of financial position of Aon Corporation as of June 30, 1998, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 1998 and 1997, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 1998 and 1997. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated statement of financial position of Aon Corporation as of December 31, 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 10, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 1997, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

Chicago, Illinois
August 5, 1998

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - The exhibits filed with this report are listed on the attached Exhibit Index.

(b) Reports on Form 8-K - No Current Reports on Form 8-K were filed for the quarter ended June 30, 1998.

SIGNATURE

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

Aon Corporation
(Registrant)

August 14, 1998

/s/ Harvey N. Medvin

HARVEY N. MEDVIN
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(Principal Financial and Accounting Officer)

Aon CORPORATION

EXHIBIT INDEX

Exhibit Number
In Regulation S-K

Item 601 Exhibit Table

(12) Statements regarding Computation of Ratios.

(a) Statement regarding Computation of Ratio of Earnings to Fixed Charges.
(b) Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

(15) Letter re: Unaudited Interim Financial Information

(27) Financial Data Schedule

Exhibit 12(a)

Aon CORPORATION AND CONSOLIDATED SUBSIDIARIES
COMBINED WITH UNCONSOLIDATED SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(millions except ratios)	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997	Years Ended December 31, 1997	1996	1995	1994	1993
Income from continuing operations before provision for income taxes (1)	$ 477.4	$ 167.1	$ 541.6	$ 445.6	$ 458.0	$ 397.0	$ 331.6
ADD BACK FIXED CHARGES:							
Interest on indebtedness	41.3	30.6	69.5	44.7	55.5	46.4	42.3
Interest on ESOP	1.4	1.9	3.5	4.3	5.3	5.9	6.5
Portion of rents representative of interest factor	22.2	29.4	44.3	28.6	21.4	28.7	26.1
INCOME AS ADJUSTED	$ 542.3	$ 229.0	$ 658.9	$ 523.2	$ 540.2	$ 478.0	$ 406.5
FIXED CHARGES:							
Interest on indebtedness	$ 41.3	$ 30.6	$ 69.5	$ 44.7	$ 55.5	$ 46.4	$ 42.3
Interest on ESOP	1.4	1.9	3.5	4.3	5.3	5.9	6.5
Portion of rents representative of interest factor	22.2	29.4	44.3	28.6	21.4	28.7	26.1
TOTAL FIXED CHARGES	$ 64.9	$ 61.9	$ 117.3	$ 77.6	$ 82.2	$ 81.0	$ 74.9
RATIO OF EARNINGS TO FIXED CHARGES	8.4	3.7	5.6	6.7	6.6	5.9	5.4
RATIO OF EARNINGS TO FIXED CHARGES (2)		6.5	7.1	7.9			

(1) Income from continuing operations before provision for income taxes and minority interest includes special charges of $172 million for the six months ended June 30, 1997 and the year ended December 31, 1997, and $90.5 million in the year ended December 31, 1996.

(2) The calculation of this ratio of earnings to fixed charges reflects the exclusion of special charges from the income from continuing operations before provision for income taxes component for six months ended June 30, 1997 and for the years ended December 31, 1997 and 1996, respectively.

Exhibit 12(b)

Aon CORPORATION AND CONSOLIDATED SUBSIDIARIES
COMBINED WITH UNCONSOLIDATED SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS

	Six Months Ended June 30,		Years Ended December 31,				
(millions except ratios)	1998	1997	1997	1996	1995	1994	1993
Income from continuing operations before provision for income taxes (1)	$ 477.4	$ 167.1	$ 541.6	$ 445.6	$ 458.0	$ 397.0	$ 331.6
ADD BACK FIXED CHARGES:							
Interest on indebtedness	41.3	30.6	69.5	44.7	55.5	46.4	42.3
Interest on ESOP	1.4	1.9	3.5	4.3	5.3	5.9	6.5
Portion of rents representative of interest factor	22.2	29.4	44.3	28.6	21.4	28.7	26.1
INCOME AS ADJUSTED	$ 542.3	$ 229.0	$ 658.9	$ 523.2	$ 540.2	$ 478.0	$ 406.5
FIXED CHARGES AND PREFERRED STOCK DIVIDENDS:							
Interest on indebtedness	$ 41.3	$ 30.6	$ 69.5	$ 44.7	$ 55.5	$ 46.4	$ 42.3
Preferred stock dividends	35.0	42.0	82.1	28.7	37.5	48.4	47.5
INTEREST AND DIVIDENDS	76.3	72.6	151.6	73.4	93.0	94.8	89.8
Interest on ESOP	1.4	1.9	3.5	4.3	5.3	5.9	6.5
Portion of rents representative of interest factor	22.2	29.4	44.3	28.6	21.4	28.7	26.1
TOTAL FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	$ 99.9	$ 103.9	$ 199.4	$ 106.3	$ 119.7	$ 129.4	$ 122.4
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (2)	5.4	2.2	3.3	4.9	4.5	3.7	3.3
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (3)		3.9	4.2	5.8			

(1) Income from continuing operations before provision for income taxes and minority interest includes special charges of $172 million for the six months ended June 30, 1997 and the year ended December 31, 1997, and $90.5 million in the year ended December 31, 1996.

(2) Included in total fixed charges and preferred stock dividends for the six months ended June 30, 1998 and 1997 are $33 million and $31.2 million, respectively, and $64 million for the year ended December 31, 1997 of pretax distributions on the 8.205% mandatorily redeemable preferred capital securities which are classified as "minority interest" on the condensed consolidated statements of operations.

(3) The calculation of this ratio of earnings to fixed charges reflects the exclusion of special charges from the income from continuing operations before provision for income taxes component for six months ended June 30, 1997 and for the years ended December 31, 1997 and 1996, respectively.

Exhibit 15

Board of Directors and Stockholders
Aon Corporation

We are aware of the incorporation by reference in the Registration Statements of Aon Corporation ("Aon") described in the following table of our report dated August 5, 1998 relating to the unaudited condensed consolidated interim financial statements of Aon Corporation that are included in its Form 10-Q for the quarter ended June 30, 1998:

Registration Statement

Form	Number	Purpose
S-8	33-27984	Pertaining to Aon's savings plan
S-8	33-42575	Pertaining to Aon's stock award plan and stock option plan
S-8	33-59037	Pertaining to Aon's stock award plan and stock option plan
S-8	333-55773	Pertaining to Aon's stock award plan, stock option plan and employee stock purchase plan
S-4	333-21237	Offer to exchange Capital Securities of Aon Capital A
S-3	333-50607	Pertaining to the registration of 369,000 shares of common stock

Pursuant to Rule 436(c) of the Securities Act of 1933, our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Chicago, Illinois
August 5, 1998

ARTICLE 5

This schedule contains summary financial information extracted from Condensed Consolidated Statements of Financial Position and Condensed Consolidated Statements of Income and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

CURRENCY: USD

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	JUN 30 1998
EXCHANGE RATE	1.0
CASH	3,398 [1]
SECURITIES	3,877 [2]
RECEIVABLES	6,818
ALLOWANCES	84
INVENTORY	0
CURRENT ASSETS	0 [3]
PP&E	1,243
DEPRECIATION	705
TOTAL ASSETS	19,845
CURRENT LIABILITIES	0 [3]
BONDS	625 [4]
PREFERRED MANDATORY	850 [5]
PREFERRED	0
COMMON	172
OTHER SE	2,853
TOTAL LIABILITY AND EQUITY	19,845
SALES	0
TOTAL REVENUES	3,185
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	2,707 [6]
LOSS PROVISION	0
INTEREST EXPENSE	41
INCOME PRETAX	477
INCOME TAX	179
INCOME CONTINUING	298
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	278
EPS PRIMARY	1.64
EPS DILUTED	1.61

[1] Includes short term investments.

[2] Includes fixed maturities and equity securities at fair value.

[3] Not applicable based on current reporting format.

[4] Includes notes payable.

[5] Preferred stock at par value. Includes Company obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary Trust holding solely to Company's Junior Subordinated Debentures.

[6] Represents total expenses.

End of Filing