



# **Aon/Willis Towers Watson Combination**

Helping Clients Navigate an Increasingly Complex World

September 17, 2020

“Clients already want something different. Soon, they will demand it.”

— EY, *Nextwave Insurance: large commercial and reinsurance*

Our world is more volatile — economically, demographically and geopolitically — than ever before. We are also more interdependent. This dynamic creates unique opportunity and incredible uncertainty and risk — risk that is increasingly connected, and more severe.

Aon and Willis Towers Watson share a commitment. We are dedicated to helping clients meet rapidly changing, increasingly complex and interconnected challenges. Each company has moved the needle, albeit in different ways. We have developed complementary solutions, capabilities, skill sets and expertise. But much remains to be done.

Client needs continue to outpace innovation, exposing a troubling gap, and the solution lies beyond the capabilities of either Aon or Willis Towers Watson alone. We realized that to fully serve clients across all industries and geographies, we must look beyond our own organizations and capabilities.

*The combination of Aon with Willis Towers Watson represents a bold step that will enable our colleagues to establish a new standard of client leadership and innovation.*

The combination will deliver:

- **Distinctive client insight** — in the form of future-focused advisory services and more extensive subject matter expertise across segments and geographies
- **Advanced analytical capabilities** — through the combination of complementary technologies, data and leading decision science capabilities
- **Superior outcomes** — by accelerating innovation that improves access to new sources of capital and introduces new structures that improve client choice

Traditional insurance brokers and benefit providers have viewed client relationships through product silos with an emphasis on risk placement. In contrast, professional services firms have offered advice but have not brought capital or other solutions to bear in order to drive outcomes. Leading technology providers have aggregated data and recognized patterns but have not translated those insights into client solutions. As a result, client needs are not being met. Their inability to maximize the value of their human capital and their exposure to risk continues to rapidly accelerate. In fact, according to Aon's 2019 Global Risk Management Survey, five out of 10 of Aon clients' top risks remain uninsurable.

**“The coronavirus is not only a health crisis of immense proportion — it’s also an imminent restructuring of the global economic order.”**

— McKinsey

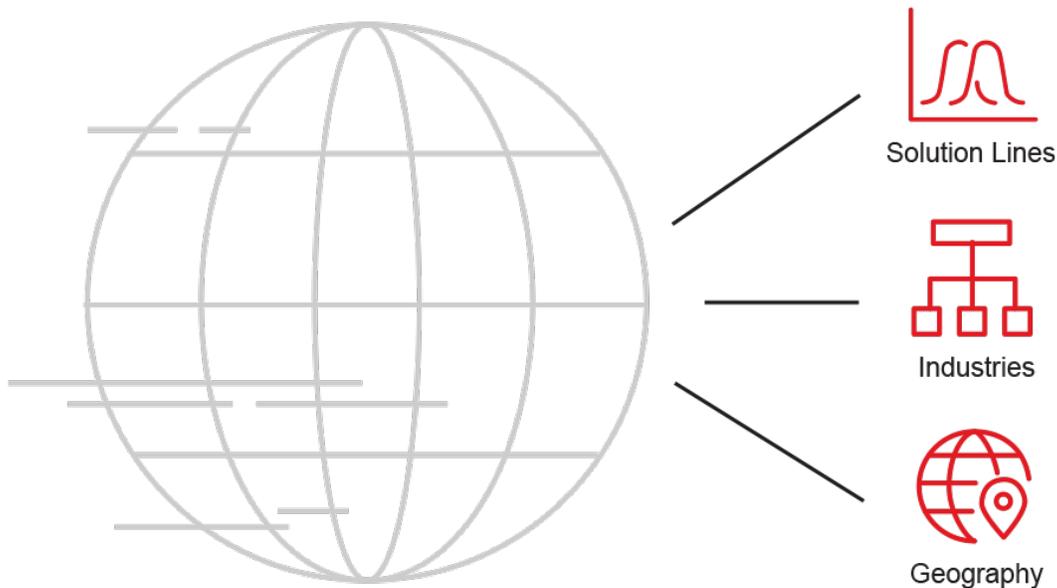
The combination of Aon with Willis Towers Watson is designed to address this unmet client need. Together, we will become a valuable partner to our clients in this increasingly complex world. We will become better and faster at innovating through our combined market knowledge, advanced analytical capabilities and world class talent that will be able to execute at an even higher level. This will enable us to deliver

new sources of value to clients to address their — and our industry’s — most intractable problems, from underinsured long-tail risk to workforce resiliency.

While our combination was not architected with the COVID-19 pandemic in mind, the events of 2020 illustrate the exact type of transformative challenges posed by long-tail risks our new organization will be optimally positioned to address. These risks, once thought rare, are now becoming common and can happen at any moment, with an impact that grows more severe over time.

Today, clients are justifiably focused on the socioeconomic impact of the pandemic, but they are also increasingly aware of other challenges like climate change, supply chain disruption, reimagining and configuring how and where work gets done, and the growing health-wealth gap, to name just a few. They are also learning how these issues connect to existing challenges. As a result, we are witnessing a fundamental reordering of client priorities on a global scale.

We acknowledge that we have to accelerate our evolution and strengthen our client-serving capabilities in order to meet these new challenges and address the demands they place on our clients.



On day one, the combination of Aon and Willis Towers Watson will enable us to combine data, analytics and technology to create new, more powerful predictive models — that look forward, and not only look back — and develop solutions at a pace not previously possible. For example, we see four initial categories of client need where the combination will have a tangible, significant, immediate and long-term impact:

**I. Navigating new forms of volatility**

**II. Building a resilient workforce**

**III. Rethinking access to capital**

**IV. Addressing the underserved**

These categories not only address the challenges posed by the increased likelihood of longer-tail risks, but also focus on accessing the opportunities available in this complex environment. They illustrate the most fundamental day-to-day challenges facing our clients as they wrestle with a lack of solutions to their most pressing needs caused by the innovation gap.

## I. Navigating new forms of volatility

We live in an interconnected world, driven by technology and challenged by both traditional and emerging forms of risks like climate change, pandemic, cyber threats and the growing health-wealth gap. This increased volatility challenges all aspects of our global economy and society. That is why it is an imperative to expand traditional risk management to address classes of risks — long-tail in nature — that are increasingly relevant but lack comprehensive solutions that address risk mitigation, incident response and compensation for loss.

The combined organization will help companies prevent, respond to and recover from risks in a way that has previously been unmanageable. Modeling severity and ascribing probabilities require vast claims history, which often does not exist for emerging risks. Our solutions will bring cutting-edge analytical capabilities to bear on long-tail risk and tail risks — like a Category 5 hurricane — that are low in probability but have a severe impact.

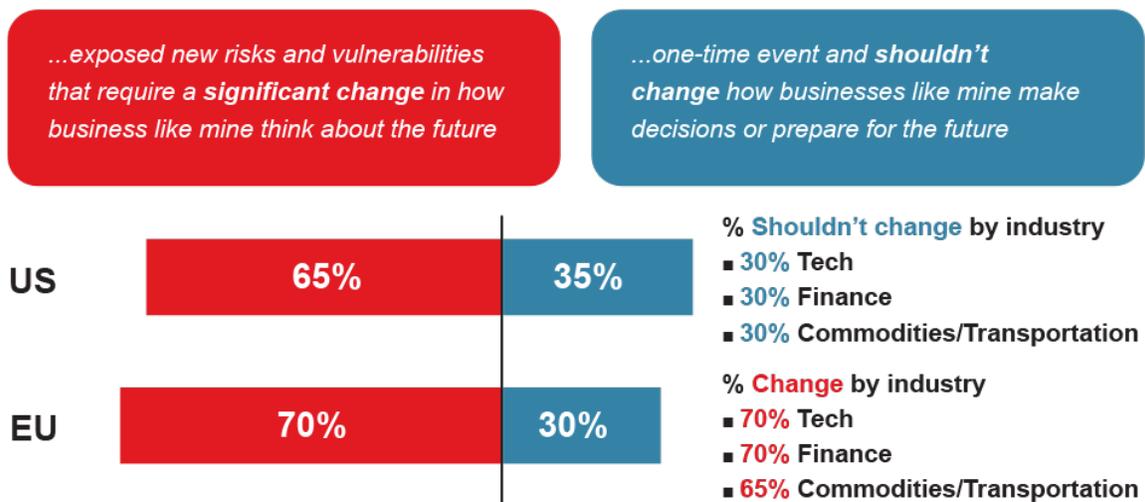
Looking at past experience to predict future volatility is no longer feasible in a highly complex world. Predictive models need data and analytics, and forward-looking algorithms to create better predictive models for the emergence of long-tail risks. Together, we will be able to close that gap to help clients better understand the nature of emerging severe risks, have better insights into the universe of those risks and, ultimately, reduce their cost by providing new insights into their frequency and severity. As a result, we will help companies create and protect value in the face of increasing complexity.

Consider cyber risk. Research from Pentland Analytics shows that of the 36 significant cyber events that have happened over the past five years, the impacted companies that had comprehensive cyber plans in place generated 40% better shareholder returns after the event took place.

There is nothing linear about cybersecurity, especially when you consider that each organization has a unique set of challenges. While it is impossible to completely eradicate cyber risk, resilience is possible for organizations that take a comprehensive approach that looks at response readiness, risk assessment, quantification and capital solutions.

## More Companies See Pandemic as Representative of Broader Risks

% saying statement closer to their view about future decision-making



Source: Aon, September 2020

Aon has made significant investments in unique technical expertise related to incident response and digital forensics services to strengthen the cybersecurity client value proposition. Combining Aon's skills, experience and analytical capabilities with Willis Towers Watson's existing cyber risk transfer capabilities will generate insights into severity and frequency. This will simplify our approach to incident response and accelerate the establishment of a standard that will increase market confidence in underwriting this emerging risk.

Climate change is another example. According to the *Cambridge Global Risk Index 2020*, the changing climate continues to significantly impact the placement of natural catastrophe risks stating, "...environmental risks pose the greatest damage to the global economy." The report also states that — except for cities in Japan and Iraq — the top cities in Asia each have a natural catastrophe risk as its top threat.

Our combined organization will have the capacity to become a key facilitator of the climate transition that will happen concurrently across multiple geographies and sectors in the 2020s. Blending Aon's catastrophe risk modeling capabilities with Willis Towers Watson's climate risk modeling platforms will provide a fundamental analytical capability to underpin market requirements. This combined modeling ability, which also demonstrates the impact human beings experience from extreme weather, can be incorporated into Willis Towers Watson's tools to enable organizations to make more informed decisions about where to locate their workforces. Willis Towers Watson's (re)insurer risk and capital management tools will blend with Aon's capabilities to serve the new needs of banks and asset managers. Aon's capital markets position will blend with Willis Towers Watson's investment in solutions to meet the needs of resilient infrastructure, food security and other demands.

In each case, this holistic approach and comprehensive solution set will help clients manage the breadth and scale of a class of risk that has historically gone unaddressed. It serves as a template to bring solutions addressing other emerging and long-tail risks such as non-damage business interruption like forced closures, supply chain disruption or required public health related renovations. These are risks that until recently have been considered rare but, because of COVID-19, are now being experienced by millions of businesses around the world.

## **II. Building a resilient workforce**

The last decade has seen a fundamental shift in where, how and when work gets done. Automation, artificial intelligence and the expansion of alternative work arrangements are trends, indeed shifts, challenging companies to rethink their talent strategies. More recently, the pandemic has accelerated new strategies for where work gets done — whether onsite, remotely or a combination of the two. Going forward, the overarching need will be to find an optimal balance of technology-driven and human interaction, as well as the right mix of talent — full-time, part-time, contractors or others. And to attract and retain the best talent, companies will need to offer greater flexibility to provide solutions for workers where they are, on their terms.

The combination of our two firms will provide better options for employers and workers so that they can build more resilient workforces by addressing the considerable gap between traditional workplace benefits and rewards and the evolving nature of work while also enabling them to hire, retain and reward employees with solutions that enable them to grow and develop and support their overall wellbeing.

With a speed and capability that we could not deliver separately, our combined firm will provide options to employers of all sizes, geographies and industries so they can better meet the career, financial and health needs of a wider spectrum of employees. This will help employers reimagine the way talent is nurtured so that individuals and the organization can realize collective ambitions.

Increasingly, the global labor force is made up of sole proprietors, independent contractors and nontraditional or “gig” workers – who, U.S. Government Accountability Office research shows, make up nearly 40% of the U.S. workforce. By moving away from a rigid, dated model that ties health care options and retirement benefits to specific types of jobs and work arrangements, we will better serve individuals and families based on what they need in this ever-changing global market.

Willis Towers Watson is already providing better choices for individuals through Tranzact, a health care marketplace for individuals. Meanwhile, Aon has improved choices for employers through solutions like the Retirement Pooled Employer Program, bringing high-quality investment options to midsize employers who have previously not had access to those solutions.

While some employers may be able to support their employees with a set of flexible benefits and high-quality choices spanning health, retirement and their personal needs, very few employers have the resources to do so, and thus a vast majority of individuals lack those choices. This imbalance can and should be addressed. Using these tools as a starting point, we envision a rich and vibrant ecosystem that offers more flexibility and better choices to employers and employees around the world. In addition, we will use our advanced data and analytical capabilities to help employees make the best choices for their changing personal circumstances and evolving stages in life. We will combine our health and human capital expertise in order to deliver value and wider wellness so that employees, companies and communities will

enjoy greater security and resilience at a time of significant risk and social and economic transition.

### III. Rethinking access to capital

Risk management is all about matching risk with capital — a process that occurs through numerous channels, both on- and off-balance sheet for organizations. A primary focus of our combined firm will be to embrace and strengthen the multidimensional nature of capital to provide greater access, unlock value and protect it in novel ways.

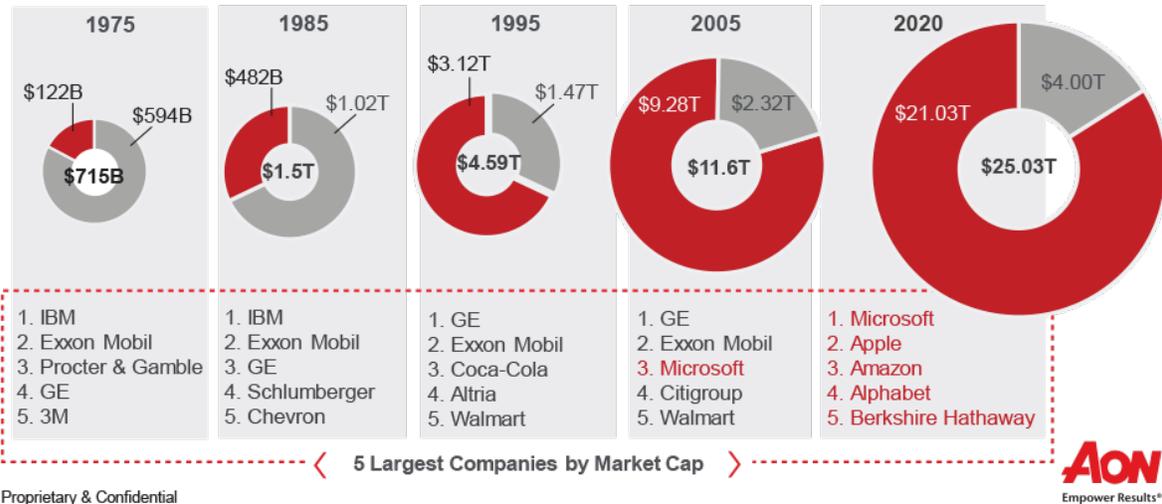
There is an incredible untapped potential to both derive capital from and protect one of the most valuable assets any organization possesses — its intellectual property (IP). Historically, for this class of intangible assets, clients have not had the tools or established financial mechanisms to manage these assets (like trade secrets, patents and copyrights) in the same way that hard assets (like buildings and furniture) are managed, even though they are now driving a disproportionate amount of economic activity and value creation.

As we continue to improve the science of valuing IP, both Aon and Willis Towers Watson have the tools, technology and subject matter expertise to improve the quality and diversity of capital available to manage IP. Aon's acquisition of 601West, an organization specializing in IP strategic counseling, portfolio development and commercialization, and its integration into Aon's IP Solutions group have proven to be a major first step in providing client solutions for this emerging asset class. Part of the Dynamic TCOR model, which presents a holistic, concise view of total cost of insurable risk across all classes of insurance, Willis Towers Watson can forecast IP loss potential and measure the impact of insurance structures on that risk by using data from judgments in IP cases.

The combination with Aon will accelerate already-in-development enhancements of IP risk modeling technology, furthering efforts to improve the science of valuing intellectual capital and improving the quality and diversity of capital available to manage IP.

## Why Intellectual Property Matters — Key Asset For Enterprise Value

- Due to macroeconomic transition from regional, manufacturing based economies to a global innovation-driven economy, we have experienced a historical value rotation from tangible to intangible assets.
- In 1975, intangible assets represented 17% of the value of the S&P 500. By 2020, that proportion had reversed, with intangibles now representing 84% of the value of the S&P 500.



In the face of increasing risk and complexity, organizations need more creative and effective ways to access capital. While accessing capital has always been critical for organizations and the health of economies, ongoing changes and market forces are expanding the very definition of capital to go beyond the traditional focus on hard assets to now include a focus on the value of intangible assets like IP.

These nontraditional forms of capital are increasingly critical to economic growth and organizational performance. Nearly 85% of the value of the S&P 500 is represented by intangible assets. Unfortunately, the tools to effectively manage these sources of value have not kept pace with that shift. Organizations face challenges today in understanding, managing and protecting the combined value of their traditional and intangible assets.

Aon's innovation in insurance linked securities, like the partnership with the World Bank that introduced a \$1.36 billion catastrophe bond to address earthquake risk in Latin America, is one example of creative new ways to access capital. As well, Willis Towers Watson has innovated through their catastrophe bonds for corporate risk. In coming together, our organization will extend the proven model of catastrophe bonds to bring deeper and diversified sources of capital to address a broader spectrum of traditional and nontraditional client risks.

We will use best-in-class analytics, combined with a deeper data set to build trackers for specific classes of risk, establishing special purpose financial vehicles and improving the value chain for sourcing capital by using leader and follower capacity that industrialize and scale the solution. And underscoring both the value to an organization and the inherent associated risks, Aon has established an intellectual property liability underwriting platform with levels of capacity that are the largest known delegated capacity for any related risk to protect clients from the known and unknown challenges that lie ahead.

#### IV. Addressing the underserved

While our world is more interconnected and interdependent, there are also too many parts of our global society — including industries, economies, communities and individuals — that are underserved or not served at all because of current market dynamics. Whether it is dealing with complexity and vulnerability, accessing capital or navigating an ever-changing workforce, too many entities cannot access solutions because service providers are still tailoring offerings to an obsolete notion of how the world operates. Our combined firm will create more affordable and scalable products that will improve delivery models for a new set of recipients, so we can ultimately broaden access and narrow this underserved gap.

Today, for example, many industry sectors face highly specific challenges that lack equally specific solutions. The COVID-19 crisis is one of them. As the pandemic heightens the importance of front-line workers — medical and nonmedical — there is a lack of solutions that support critical non-emergency medical transportation companies.

In the U.S., over 15,000 firms provide over 100 million rides each year to patients who would otherwise miss out on critical medical care. However, these transportation firms struggle to obtain the appropriate coverages required to provide their essential services, as their needs and risks are complex to underwrite, and few admitted insurance companies focus on this market.

“In an era of technology transformation and data-driven disruption, our sector has been held back by operational inefficiencies and outdated systems.”

— EY, *Nextwave Insurance: large commercial and reinsurance*

As a combined firm, our advanced analytical capabilities will allow us to create new forward-looking models that unlock capital and create a market to meet these specialized needs. By combining Aon’s professional employer organization relationships — which support accountants, lawyers and nurses, among many others — with tools like Willis Towers Watson’s Radar Live, we will bring analytical insight and coverage to classes of risk that today have low-quality solutions or no solution at all.

Tranzact, as referenced earlier, will also play a critical role by linking individuals directly with insurance carriers. Aon’s recent acquisition of CoverWallet is another example of how we have expanded our capabilities for small and midsize enterprises by providing a digital platform that provides access to insurance coverage tailored to their specific needs.

These combined tools and services, along with our continued investment in innovation, will enable a rich ecosystem that will provide a marketplace of high-quality solutions and capacity. Just as economies have benefited from a robust and vibrant banking system where multinational, regional and community banks all thrive, our combined market relationships, platforms and reach will provide enhanced choice, similar access and capabilities to small businesses, independent insurance agents/brokers and regional carriers.

## A once-in-a-generation combination

“Organizations don’t just prepare for the future. They make it.”

— J. Peter Scoblic, *Harvard Business Review*,  
“Emerging From the Crisis: Learning from the Future”

These are just some of the examples that underlie our belief that, through our complementary *capabilities*, *this combination will create a firm better prepared to address unmet client needs in a changing and complex world*. We will continue building on the Aon United strategy and the Willis Towers Watson growth strategy and investing to empower our people to deliver distinctive client insight and advanced analytical capabilities that will produce superior outcomes for our clients.

Certainly, the combined organization will be a more capable professional services firm, with better insurance brokerage services, more complete benefit provider capabilities and a better consultancy across any number of areas including health, retirement, investment and human capital. But what we are building together defies traditional categorization. Our new organization will have a critical seat at the table, advising clients on issues that have traditionally been left unmanaged due to the gap between traditional brokers, professional services firms and technology providers. We will also have a keen focus on addressing the types of unmet need that come from enhanced collaboration between the public and private sectors, which will be essential to close the rising protection gap and build resilience against catastrophes.

Faster innovation and enhanced technology, greater analytical capabilities, complementary subject matter expertise and our focus on long-tail risk will set us apart. We will address the most pressing challenges — known and unknown — facing leading organizations and society today. It will also put our people in a position to truly have a significant impact not only on the business landscape, but also on the global economy and the world around us.

In a highly complex and increasingly volatile world, this once-in-a-generation combination establishes the combined Aon as the firm to help clients navigate today's challenges and together tackle some of the greatest issues facing society.