

For Professional Clients only

Helping you improve your investment portfolio in challenging markets

Investment solutions for insurers

AON
Empower Results®



Aon's specialist investment services for our insurance clients include:

- Fiduciary investment management services
- Risk and capital management
- Asset liability management
- Cash flow modelling
- Standard investment management reporting
- Bespoke reporting such as Solvency II, FAL, LIM
- Peer analysis
- Capital market and de-risking solutions
- Strategic advisory

A challenging environment for insurers



In an increasingly complex and demanding environment with heightened regulation, the pressures facing European insurers have never been so great. With the focus very much on managing the underwriting risk and having the assets work harder in a risk-controlled manner, the challenge is not only in choosing the right investment strategy now but being able to evolve that strategy over time according to your company's liability profile and business needs.

Fiduciary management (or delegated investment) is one solution to these challenges

The primary aim of fiduciary management is to help you achieve your long-term goals but in a risk-controlled, efficient and cost-effective manner. The potential benefits are extensive for all insurers of all sizes as solutions are tailored to your specific requirements and to meet your goals.

A leading provider of investment solutions

Our global investment solutions team, Delegated Consulting Services, is focused on helping institutional investors and insurers improve their returns (in a risk-controlled manner) through the delegation of the day-to-day management of their investment portfolio. Our clients get access to our best ideas, our best research and our best risk and investment processes, from the wider investment consulting business, insurance and risk broking business and specialist global investment teams. Not only do you get access to the best of Aon but we implement any changes in a quick and efficient manner on your behalf. We act as your Chief Investment Officer, alongside your CIO and internal investment team, leaving you to focus on other aspects of your business in the knowledge that your investments are well taken care of.

Solutions tailored to your unique objectives

We work in partnership with all our clients to deliver truly bespoke solutions to meet their unique requirements.

No two insurance clients of ours are the same and therefore neither are our solutions. We manage the day-to-day investment decisions, within clearly defined parameters set by you, aiming to deliver the returns that support and protect your business, and give you the asset stability that you need to maintain and grow your business underwriting activities.



Understanding the challenges you face

All insurers are facing a complex combination of challenges. These impact their ability to effectively manage their investments to generate solid returns with a risk focus while grappling with the changing regulation and market environment.

In markets, there has been a prolonged period of low interest rates and reduced expected investment returns across all asset classes. How can investment returns be improved with this backdrop? Alternative asset classes, such as private equity, infrastructure assets, mezzanine debt, bank loans and real estate typically offer higher returns and higher cash yields to reflect the higher risk of these alternative investments. Some large insurers are tapping into these investments to enhance yield and deploy capital smartly, maximising returns against incremental capital expenditure.

However, investing in such asset classes poses its own challenges such as increased complexity, accessibility and the expertise needed. Significant due diligence costs and expertise are required to effectively manage a portfolio of these investments.


Furthermore, regulatory burdens on illiquid investments can mean significant costs to put appropriate reporting and risk analysis in place. Insurers with a limited allocation in these asset classes and/or smaller balance sheet sizes overall are effectively excluded from participating in many alternative asset classes or face high investment management fees to a limited group of 'open' managers in these asset classes.

Legislation has been equally challenging with the introduction of new regulatory and accounting regimes such as Solvency II and IFRS 17. This has acted to further complicate the investment choices insurers face and how to capture them. Further regulatory burdens demand far more transparency and reporting on investment decision making and calculation of capital charges — adding to these pressures.

For life insurers, legacy business which was written during periods of higher rates of interest is increasingly difficult, if not impossible, to match with suitable investments. General insurers face returns on low risk cash investments, placing additional pressure on underwriting standards. Optimising asset allocation decisions in this environment is therefore increasingly important.



What is fiduciary management or delegated investments?



Fiduciary management is an investment and governance solution that is also referred to as delegated investments or an outsourced CIO approach.

This is where the insurer's executive committee or investment team (or similar) set the long-term investment strategy and objectives, and then delegate the execution and implementation of this strategy on a day-to-day basis to third party investment experts, such as Aon. It allows insurers to execute a long-term strategy efficiently and target better outcomes through a more effective governance, risk and investment management structure. It is very much a bespoke solution rather than a product. Fiduciary management provides the ability to react quickly to changes in market conditions and capture opportunities, without the need to wait for monthly or quarterly investment meetings.

For many CFOs, CIOs, treasurers and smaller investment teams, fiduciary management is about having access to a level of expertise that can otherwise be missing on a day-to-day basis. It involves investment experts who understand the complexity of capital markets and can help insurers' own investment teams achieve their objectives and meet each insurer's unique liabilities.



Full fiduciary management

This is where the insurer sets the overall strategy (including the long-term risk and return objectives) and then delegates all the investment decisions and day-to-day running of the investment portfolio to their fiduciary manager. The provider manages all of the insurer's assets with a bespoke liability benchmark and this solution is fully tailored.



Partial fiduciary management

The insurer delegates all the investment decisions for only a specific section of their portfolio (for example, high yield bonds, emerging markets, infrastructure or liability hedging assets). The insurer maintains the decision making on the remainder of the portfolio.



Liability driven investment approaches

Some insurers either write business which requires strict cashflow matching or in certain circumstances want to de-risk a closed book of business through more precise asset-liability matching. Aon has vast experience, deep resources and knowledge of managing liability driven strategies where no new assets will enter the portfolio and strict matching is required. Years of successful management and depth of experience using both real assets and derivatives means insurers can outsource a variety of different types of investment requirements to help ensure that future liabilities are met.



What are the benefits of this investment approach?

The potential benefits of fiduciary management are extensive for insurers of all sizes as solutions can be tailored to meet insurers' unique and specific requirements.

A partner to help evaluate and manage your investments

A fiduciary manager acts like an internal Chief Investment Officer. In addition to managing the underlying investments on a day-to-day basis, it reviews and recommends changes. They work alongside the CFO, Chief Actuary, and CEO as well as the existing internal investment team and CIO, to design investment policies and suggest changes to strategic asset allocation decisions.

Access to a global investment team with expertise in all major asset classes and best in class funds

Insurers of all sizes grapple with the challenge of understanding and then managing increasingly complicated investments in order to be competitive. Insurers using a fiduciary management approach get access to expertise that would be difficult and costly to create internally.

Investment team time freed up to focus on strategy

Using a delegated solution will enable investment teams within insurers to step back and focus on strategic decisions while the investment strategy is implemented and managed by experts on a daily basis. The strategic decisions and investment guidelines will be agreed at the outset by the key stakeholders and the fiduciary manager. This frees up

the investment team's limited time to spend elsewhere and ensures that the investment team feel much more in control of their strategy.

Enhanced diversification and better liability matching — means a smoother, more certain route to your end goal

Fiduciary solutions typically offer better diversification of the return-seeking assets and improved matching of any unrewarded risks (ie, interest and inflation risks) which will ensure smoother and therefore greater predictability of return.

A nimble and proactive investment strategy

Investments are monitored and managed on a daily basis by the fiduciary manager. Insurers benefit from 'always on' investment expertise which means any opportunities can be captured quickly and efficiently; the portfolio evolves as markets or views change, or as new investment strategies come to market. This means you get an investment solution that is right now and in the future.

Cost-effective solution

For smaller and mid-sized insurers, the combined buying power of a fiduciary manager and these solutions would provide access to top tier managers and opportunities at discounted rates that would otherwise be less likely.

Aon's investment solution for insurers

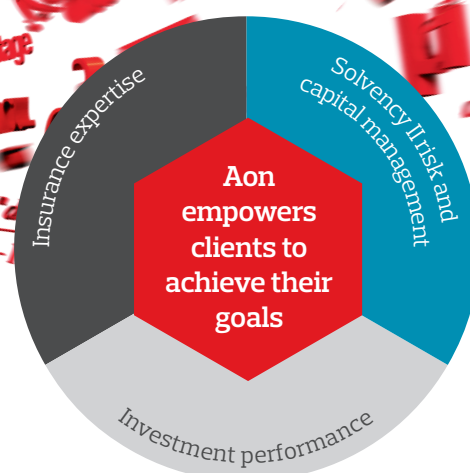
As part of the world's leading insurance and reinsurance broker, we are unique as investment consultants in understanding the issues both on the asset side and the liability side of your balance sheet.

We understand the insurance cycle and the different risks you face. We have an extensive global network of expertise including insurance industry experience and specialists with access and oversight to a range of core and alternative asset classes that can improve your returns.

Our global investment solutions team, Delegated Consulting Services, has been specifically designed to sit alongside you, as an insurer. Our aim is to provide an efficient and tailored investment solution for you, using best in class manager selection, risk management, portfolio management and asset allocation insights. We are able to help you manage your risks and optimise Solvency II constrained portfolios to help improve the investment returns and your return on your capital.

In particular, insurers with limited internal expertise in certain asset classes or geographies can quickly and efficiently improve portfolio diversification, return expectations, and more effectively manage risk by leveraging the capabilities and bulk buying power of Aon. We are also well placed to help ease the regulatory burden on insurers by providing comprehensive reporting and modelling of core and various alternative investment risks.

Our global delegated investment solutions offer you a complete service. This includes not only the day-to-day management of your portfolio but also comprehensive reporting that helps you to satisfy the increasingly demanding regulatory reporting requirements now in place around the world.



Aon: a collaborative partnership with you

We believe in working closely with our clients from the very outset to understand the challenges they face and their specific needs. Working in partnership with you and your fellow key stakeholders, we create bespoke solutions to help address these issues and help you to meet your long-term goals. No two insurance clients of ours are the same and each has their own solution, reflecting our truly tailored delegated offering.

Working together is central to our core beliefs. We look to understand your objectives, design a solution and provide you with market-leading capabilities which will help us deliver the best possible outcome to you over the coming months and years. This also means that we can work alongside any in-house team and resources you already have in place. Equally, you can trust that you have delegated your assets to a leading provider and we are able to keep you updated with weekly or monthly conference calls, quarterly face-to-face meetings and comprehensive reporting. The service, as well as the solution you receive, can be tailored to your requirements.



Two-way collaborative approach

We ask:

- What is your future business strategy? What are your main business concerns — for example: is it political risk in particular geographic regions where you have a significant exposure?
- How do you manage these risks and how do they translate into your investment portfolio?
- What does your investment portfolio look like? And how is it performing against the industry and peer benchmark? Is it meeting your needs? What would you like to achieve from your investments and investment strategy?

Then we will design an investment strategy suited to your unique liability profile and end goals



Why choose Aon?

We understand the risks and challenges you face — and importantly we can help you address these

We understand the importance of risk and are highly focused on this. We manage and mitigate risk on our clients' behalf as a matter of course. Most managers only interpret investment risk but we have a much broader view. For example, how you deal with the soft market, price, contract and areas of underwriting exposure. We reflect this understanding and analysis in your investment strategy — offering independent, unbiased advice based on our database of over 24,000 investment managers and in excess of 30,000 different investment strategies.

Governance and control — we can help improve your governance structure and give you greater control over your investments

Our solution allows you to focus your time and become even more effective. You are able to concentrate on the strategic discussions with your executive committee while the advice and infrastructure — statutory reporting, the management of the investment managers — comes from us. Our delegated approach allows you to deliver a better governance structure; particularly valuable for small teams without the in-house resources to draw on.

Aiming for better outcomes — we can help you aim for better outcomes whether you want to improve your returns or reduce your risk, or a combination of both

We understand that your investment portfolio is there to manage your liabilities — pay your claims — and must be stable and strong. We know that downside protection is very important and have an extensive track record of managing assets versus liabilities (most other providers only focus on assets) without compromising performance. 100% of our full fiduciary clients have outperformed their bespoke liability investment benchmarks since inception and net of all fees (to 30 June 2017).



Case study

Aon helps insurer deliver 3% p.a. improved investment returns

The situation

A UK credit insurer had a mixture of contingent and impaired financial guarantees totalling GBP 17.2bn. Its assets — overseen by its US parent's in-house investment team — were outsourced with a low risk, low expected return mandate.

Aon's solution

A multi-phased approach saw Aon's global investment team assess the insurer's risk appetite and carry out an asset/liability modelling programme to advise a shift in investment strategy towards a broad mix of rating exposures and asset classes.

The results

The new investment strategy has delivered around a 3% p.a. improvement in returns and a clear improvement in the business's long term profitability.



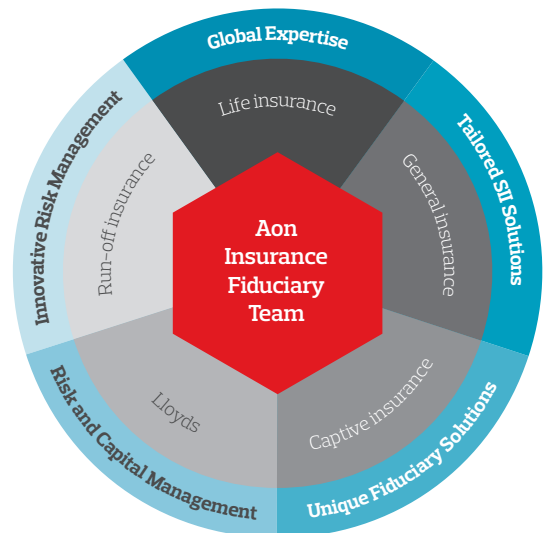
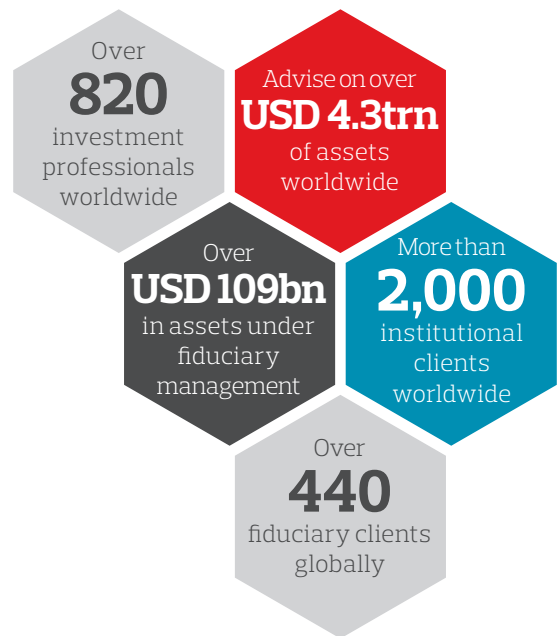
Aon's investment team

We have over 820 investment professionals located across Europe, the US, Asia, the Middle East and Africa. We advise on over USD 4.3trn of assets for more than 2,000 institutional clients worldwide. We have many years' experience of working with liability driven investments, strategy reviews and ALMs.

Globally we have over 440 fiduciary clients with over USD 109bn in assets under fiduciary management. In the UK alone we have over 100 clients and GBP 14bn of assets under fiduciary management.

Aon's specialist investment services for our insurance clients include, but are not limited to:

- Fiduciary investment management services
- Risk and capital management
- Asset liability management
- Cash flow modelling
- Standard investment management reporting
- Bespoke reporting such as Solvency II, FAL, LIM
- Peer analysis
- Capital market and de-risking solutions
- Strategic advisory



Contacts

For more information please contact your usual
Aon consultant or one of the team below:

Gerard-Jan van Berckel

Head of Delegated Solutions — European Insurers
+44 (0)787 644 8468
gerard-jan.van.berckel@aon.com

Tim Currell

Head of Investment, CEMEA
+44 (0)795 115 8412
tim.currell@aon.com

Sion Cole

Senior Partner and Head of European Distribution
+44 (0)20 7086 9432
sion.cole.2@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

© Aon plc 2018. All rights reserved.

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence).

This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon.

Aon does not accept or assume any responsibility for any consequences arising from any person, other than the intended recipient, using or relying on this material.

Copyright © 2018. Aon Hewitt Limited. All rights reserved.

Aon Hewitt Limited Registered in England No. 4396810 Registered office: The Aon Centre, 122 Leadenhall Street, London, EC3V 4AN .

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.

Aon's Delegated Consulting Services (DCS) in the UK are managed by Hewitt Risk Management Services Ltd (HRMSL), a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.

www.aon.com