Aon Consulting merges with Hewitt

Aon’s global takeover of Hewitt creates the world’s leading service provider of human capital consultancy and HR outsourcing

Three day before Aon United Day, the official start of Aon’s football shirt sponsorship of Manchester United, a press release took both the business world and Aon and Hewitt’s own employees by surprise. On 12 July 2010, the Aon Corporation of Chicago, Illinois, USA, and Hewitt Associates of Lincolnshire, Illinois, USA, came to an agreement under which Aon bought Hewitt, which would then merge with the business unit Aon Consulting and operate under the name Aon Hewitt, employing over 29,000 staff in 120 countries. The buyout has yet to be approved by the shareholders and the various supervisory authorities. The transaction is expected to be concluded by November at the latest. Until then, Aon Consulting and Hewitt will continue to operate strictly as direct competitors with completely independent market strategies.

A great deal of work and effort – on both sides – is going into the preparations to ensure a smooth and problem-free merger. The new global management team has already been named and further decisions on personnel and organisational matters are set to be taken over the next few weeks.

A perfect fit

In many respects, the two companies complement each other perfectly. Hewitt, for example, enjoys an extraordinarily strong position in the market for the biggest international clients and Aon is performing extremely well in the market for medium-sized businesses. Hewitt is the global market leader in human capital consultancy and the outsourcing of HR services, while Aon leads the field in benefit broking (broker services in the employee pension scheme field).

Both companies’ clients will in future be able to benefit from a closer-knit network of locations, a broader range of services, and more experts and advisors.

Positive repercussions for clients in Switzerland as well

Up to now, Aon Consulting has covered the employee pensions market with some 40 employees, managed from Berne, Geneva and Zurich. The future Aon Hewitt will have all of 200 employees on its books and make a name for itself in Switzerland as the major service provider in a variety of areas. All in all, the new organisation will be high-performing and client-focussed, with teams offering you real added value through new services and extensive experience.

If you have any questions about the planned merger, please contact Rolf Jufer. Further information on it can also be found at www.aon.ch.

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Credit insurance takes the pressure off core business

The increasing need to source information from elsewhere, hedge against receivables, refinance investments and manage sales, not to mention the second and third-hand influences exerted by the economy, are making planning more and more complex for businesses. Today, hardly any company can ignore the fact that income flows circularly and globally, through its customers, through these customers’ customers, through banks, and in response to decisions on economic policy, etc.

Trust is good, protection is better

Nowadays, businesses take out insurance cover mainly for car fleets, inventories and buildings. They also insure their human capital against harm at work and elsewhere. But when it comes to receivables outstanding, one of the major entries on the asset side of the balance sheet, most businesses prefer to rely on “trust” – often with catastrophic consequences. Looking through companies’ balance sheets reveals that “receivables outstanding from customers” can add up to as much as 75% of total assets. The trust a business places in its customers can very often cause substantial dents in its profits or even threaten its very existence if one or more customers is unable to pay up.

For whom is receivables cover relevant? To put it another way, what added value does a company derive from it?

By taking out credit insurance, any company can hedge against the risks of loss from unpaid receivables and so manage its credit better and improve banks’ ratings of its financial position.

Switzerland’s six most important trading partners

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<th>Year-on-year changes in corporate insolvencies 2008–2011</th>
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Source: Euler Hermes

Slight recovery in high level of insolvencies

Euler Hermes Global Insolvency Index (GII)
An index changing annually and weighted by share of global GDP

Even though the number of insolvencies in 2010 and 2011 is expected to decline slightly, this figure represents stagnation at an extremely high level. In Switzerland, the number of corporate insolvencies in 2010 is expected to hit a new high (up 14%) and to fall only slightly in 2011. However, Switzerland, with its high proportion of exports, would be even harder hit by a renewed worldwide increase than other countries. (Table)

In Europe as a whole, the 2010 figure for insolvencies is expected to show a further increase (by 6%). A global reversal of this trend is not expected to set in until 2011; when it does, it will do so in different ways in different regions and be driven largely by such countries as China, Brazil and the United States. If, however, the current budget deficits, currency fluctuations and, more recently, structural and political uncertainties become more widespread, this structural fragility will engender a dramatic increase in insolvencies, pushing them to new record levels. (Diagram)
How does credit insurance work?

A supplier who is a credit insurance policyholder asks its credit insurer to set a credit limit for the greatest possible amount outstanding from its customer for the goods supplied. The amount of the limit is based on the time it takes the maximum amount outstanding to be paid – as a rule, from the date the goods are supplied or the invoice presented to the agreed payment date (open account).

The credit insurer then uses its own database to check how creditworthy the customer is and, depending on the risk involved, makes a limit or sub-limit available or notifies the policyholder of the customer’s poor credit rating. The supplier can use that information to manage its transactions with the customer. Throughout the term of the policy, the credit insurer constantly checks and monitors the policyholder’s entire portfolio and provides prompt notification of any adverse developments.

Where information is not available, the policyholder helps the insurer to obtain the data it needs. The relationship between the two parties is very close, all-embracing and beneficial to the risk analysis process.

Where – contrary to all expectations – a company becomes insolvent or payments are seriously and unexpectedly delayed, the insurer pays compensation up to a maximum of 90% of the credit limit agreed. The insurer also helps with the recovery of unpaid debts. This is highly advantageous if the purchaser is outside the vendor’s jurisdiction.

The insurer also offers individual information on country risks, sectors and legal background.

Credit insurance is a highly complex process, calling invariably for an all-round understanding of the specific options available where the optimisation of an individual client’s risk management is at stake. A company looking for the best possible protection against risk needs to avail itself of the services of a credit insurance specialist, since it is unlikely that the specialised training, network access and experience can be found in an ordinary insurance broker’s office.

Whether the company in question is an SME or a multinational corporation is irrelevant – it is only their needs and dimensions that are different.

For a small company with few customers and tight margins, a default represents a bigger risk than it does for a major multinational. For an SME, a default can threaten the company’s very existence; for a multinational, it can have an adverse effect on the company’s credit rating, its share price and the resulting market confidence. Both types of companies need to be very careful of the impact of customer risks and the consequences these can have. Credit insurance helps companies to see where these risks lie and to minimise the problems associated with them.

The increased incidence of insolvencies around the world in 2008 and 2009 – a trend which is expected to continue in 2010, with future crises expected to occur at more frequent intervals – has made markets less safe places for all participants involved with less scope for planning ahead. At the same time, competition is becoming tougher and access to finance (q.v Basel II) for investments that are needed for survival is becoming more difficult, with the consequence that businesses are taking on more risks, which in turn they have to monitor more closely.

Credit insurers operate globally and have their fingers on the economic pulse. Their databases and worldwide networks enable them to immediately analyse, evaluate and assess the way customers pay their debts, the ways in which the economy cools down and heats up, political risks, regional peculiarities and the legal processes in particular countries – in short, everything that happens at the macro and micro-economic level.

Credit insurance gives a company access to this valuable information, enabling it to manage its investments better, sell more goods and services, and finance the business more effectively.

Credit insurance policies entail active examination of a company’s own credit and risk management systems. They provide support and protection since they are designed with the needs of individual businesses in mind and are adapted to companies’ specific risk and business models.
The benefits of credit insurance, classified and summarised

Risk transfer
1. Insurance can be provided against both political and commercial risks
2. Reduced concentration of purchaser and country risks
3. Risk of non-payment is transferred from many purchasers to an insurance company with investment rating
4. Security for the biggest entry on the balance sheet – receivables outstanding

Risk control
1. The company hands over aspects of its credit management to the credit insurer
2. Credit insurers set the company insurance limits and often also provide it with ratings of its customers
3. Credit insurers monitor customers’ creditworthiness in detail and provide up-to-date ratings of it
4. When accounts receivable are not paid, the insurer helps with collection measures and bears some of the costs

Receivables finance
1. Credit insurance can be used as the basis for the securitisation or factoring of receivables
2. Factoring is used to take receivables off the balance sheet, enhance cash flow, reduce the number of payments and build up the equity ratio
3. The working capital position is improved
4. The security of the insurer raises the quality of the receivable to investment grade (minimum BBB-)
5. Credit insurance has a positive effect on internal and external ratings and thereby secures better terms and conditions for finance from banks
6. The cession involved in credit insurance also gives creditors added security

Increased revenue
1. Credit insurance replaces the use of letters of credit with open-ended payment terms
2. Open-ended payment terms enable suppliers to make full use of their opportunities in growth markets

3. Payment terms play a major part in enhancing revenue and profit
4. Targeted sales measures based on the credit limits made available
5. Evaluation of new customers used as the basis for entering new markets

Corporate Governance
1. Credit insurance complies with such legislation as Sarbanes-Oxley and Basel II
2. Considerable potential reduction in the concentration of risks
3. Credit insurers provide a framework for facilitating a company’s own receivables management (credit control and monitoring)
4. It is a powerful tool for avoiding catastrophic insolvencies, especially in growth markets

Looking back: Aon “BVG-Info”

On 31 August 2010, Rolf Jufer welcomed over 100 guests to the Champions Lounge of the Stade de Suisse. The audience of professionals showed a great deal of interest and were impressed not only by the location, but also by Aon Consulting’s dynamism, innovative approach and capacity for change. The introductory presentation focussed on the encouraging results from the customer survey, the new services on offer, the firm’s commitment to sponsoring Manchester United and the planned merger of Aon and Hewitt.

Pension funds face widely varying challenges

Hanspeter Konrad, CEO and director of ASIP, the Swiss pension funds association, gave an in-depth analysis of the situation facing pension funds in Switzerland and ventured a look into their future, arguing that structural change would probably represent evolution rather than revolution for them. He went on to say that pension funds needed to prioritise long-term structural fitness, cost-efficiency, realistic underwriting and financial parameters (technical interest rates, conversion rates etc.) while also establishing professional management structures and being proactive in communicating with their insured members.

Josef Bachmann, general manager of the PricewaterhouseCoopers pension fund, presented a study in which he suggested the “bonus pension” as a possible way out of the demographic trap which offers a simple and highly transparent solution for funds that currently pay very high non-obligatory benefits.

Before the break, participants saw a video message from Wayne Rooney and his team-mates telling them how much Manchester United looked forward to being sponsored by Aon. A number of guests took this as a deft pass to the YBs and Manchester United.

After the break, Dr Torsten Köpke, head of Aon Investment Consulting, gave a presentation on Aon’s approach to investment, using the Aon Investment Navigator to demonstrate that successful and effective investment management has a lot to do with good organization and discipline. Aon’s 360-degree approach – which is systematic and exploits every opportunity to the full – is intended to make it easier for institutional investors to find their strategic goals and provide them with the means to achieve them.

In the traditional “BVG update”, Tristan Imhof, a lawyer with Aon Consulting, gave an overview of what is happening in politics on the social insurance front. He also explained new legislation and commented on recent legal rulings with the help of several examples.

Ilja Kaenzig, the YBs’ new boss at the Stade de Suisse, offered a sporting treat before the drinks reception, talking about the fascination of top-rank football and drawing parallels between the YBs and Manchester United.

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New Managing Director at Aon Insurance Managers (Liechtenstein) Ltd

Aon Insurance Managers are pleased to present Mr Denis Kallaert as new Managing Director of the Liechtenstein subsidiary. Mr Kallaert started his new position as of 1 September 2010 and will be domiciled in the Principality of Liechtenstein after receipt of his residence permit. With 9 years of service in various positions in our Luxembourg office and 5 years as Senior Account Manager at Aon Insurance Managers (Switzerland) Ltd, Mr Kallaert brings a comprehensive track record and unparalleled knowledge to accounting, administration of captives and analytical matters.

With his appointment and the organizational re-structuring, the Liechtenstein office is prepared for the continuously increasing demand of a growing client base. The team now consists of Ms Nives Steuble, Mr Piotr Roslon, Mr Andreas Epper and Mr Denis Kallaert, who guarantee a high quality of service. As competent and energetic captive and insurance managers they face new challenges in the Principality of Liechtenstein such as the introduction and implementation of the new insurance supervision law (VersAG) in 2010, the new tax law, expected in 2011, and in particular the introduction of Solvency II in 2012/13.

All team members will meet the expectations of the clients and the requirements of the authorities with high competence they have gained from valuable experiences in several Swiss projects such as the introduction and implementation of the new insurance supervision law (VAG), internal control system (IKS) and the solvency capital models risk bearing capital (RBC) and Swiss Solvency Test (SST).

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QIS5 and Solvency II Updates

QIS5 Workshop in Liechtenstein

The Liechtenstein Insurance Association (LVV) organized another Quantitative Impact Study 5 (QIS5) workshop in Vaduz on 12 August 2010, in which Aon Insurance Managers (Liechtenstein) Ltd participated. The two speakers from the Institut für Finanz- und Aktuarwissenschaften (ifa) in Ulm explained the technical specifications and their impact in great detail. The presentation was followed by discussions with the participants.

Chronological sequence of action

- Publication of the final technical specifications at the beginning of July 2010 followed by the spreadsheets in August 2010.
- Period of data collection: from 19 August to 31 October 2010 (on solo-level) and from 26 August to 15 November 2010 (on group-level).
- Submission of the data collected to CEIOPS on 10 January 2011.
- Publication of the report on 29 April 2011.

Solvency II

Aon Insurance Managers (Liechtenstein) Ltd attentively monitor the further development of QIS5 and its impact on Solvency II, by which Liechtenstein captives will also need to determine their solvency capital requirements.

Based on our contact with various Solvency II experts, we notice that the impact on the capital requirement of captives is less severe than feared. This is also due to the application of the proportionality principle, which captives enjoy. Nevertheless, the general capital requirement under Solvency II is higher than under Solvency I.

It seems as though the discussions between captive owners, their associations, e.g. ECDOA, and Aon Insurance Managers (Liechtenstein) Ltd on the one hand and CEIOPS and supervisory authorities on the other have succeeded in finding an eventual capital determination for captives under Solvency II.

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The Solvency II guideline, accepted by the European Parliament and Council 2009, which is to be implemented by 1 January 2013, set the framework for the new generation of supervisory law for insurance and reinsurance companies in the European Union. Since the directives of the Solvency II guidelines need to be complemented by so-called implementing measures of level 2 which are issued by the Commission, well-grounded and extensive empiric data is needed for the quantitative solvency requirements. For this reason the Commission launched a 5th Quantitative Impact Study (QIS5) which is run under the lead of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) from August to November 2010. The European Commission strongly requests the EU insurance and reinsurance companies to participate.
The new Product Safety Law (Produktsicherheitsgesetz – PrSG)
What do you need to look out for?

The law, which came into force on 1 July 2010 after the deadline for a referendum on the Federal Law on Product Safety expired unused on 1 October 2009, fundamentally revising the previous law on the safety of technical equipment and appliances (Sicherheit von technischen Einrichtungen und Geräte – STEG) of 19 March 1976.

What is the Product Safety Law intended to achieve?
It specifically addresses product safety and is intended to facilitate the cross-border movement of goods (Article 1, Section 1 PrSG). It also brings Swiss law into line with the European Union Directives on general product safety.

What does it specify regarding the marketing of products?
According to Article 3 PrSG, products may be marketed only if, in the words of the PrSG: “they do not or only minimally compromise the security and health of users and third parties when used normally or in a reasonably foreseeable manner.”

The PrSG definition of a product covers every ready-to-use, movable object, even if it forms part of another movable or immovable object. The law is not, therefore, applicable to buildings and other structures, but seeks to ensure that products that are incorporated into another movable object or into a property are covered by the PrSG.

Who is affected by this law?
The PrSG affects not only manufacturers and importers, as envisaged in the Product Liability Law (Produktehaftpflichtgesetz – PrHG), but everyone who supplies a product on a chargeable or non-chargeable basis, regardless of whether the product is new, substantially altered, reconditioned or used. The legislators use the term “distributors”. Article 8 Paragraph 4 PrSG states that retailers are also subject to far-reaching obligations to help ensure compliance with product safety requirements. With this in mind, it is no longer sufficient for the dealer to supply the claimant with the details of the manufacturer or importer in a timely manner; the dealer must also undertake the measures specified in the PrSG.

The term “dealer” covers everything from wholesalers, retailers and electricians to car rental companies; in other words, everyone who trades in products that fall under the definition of Article 2 PrSG.

What are the duties of the product distributor?
According to Article 8 PrSG, the product distributor has to take appropriate steps to identify any hazards that could result from the normal or reasonably foreseeable use of the product for that product’s specified or anticipated operating life. In addition, the distributor must ensure that any hazards can be averted and must also take measures to ensure that the product can be tracked. Where a product could result in a hazard, the distributor must inform the relevant authorities. Where there is a hazard, the law not only obliges manufacturers and importers to take appropriate measures, but also imposes far-reaching obligations on the dealer. Where the distributor fails in this regard and does not take timely and effective measures, the authorities may warn the public directly of the dangers of the products (Article 10 Paragraph 4 PrSG).

How is liability determined?
While the PrSG makes no direct reference to liability, under the PrHG liability is not limited to the manufacturer and importer and may also extend to the distributor, i.e. the dealer under Article 41 or 55 OR, if said distributor violates its duty to monitor the product or to take the necessary measures in case of hazard. In addition to the consequences under civil law, the distributor may also prosecuted if it intentionally places a product on the market that does not comply with the provisions of the PrSG. Such instances may result in imprisonment or a fine.

What must be taken into account?
The product must meet the applicable technical standards and comply with any conformity assessments.

The distributor must carefully check the safety of the product in accordance with the appropriate standards and regulations.

The distributor must monitor the product for the intended duration and, if a hazard becomes apparent, take any measures necessary, such as issuing a warning, informing the authorities, halting sales, recalling the product or withdrawing it from the market.

Do I have to do anything as regards my operating and product liability insurance?
Liability insurance essentially covers the liability resulting from legal liability provisions; your insurance therefore also covers the PrSG.

You should, however, ensure that the coverage of your policy covers the costs of any product recall.

Should you switch to a different insurer, you must ensure that your new insurer will also cover any losses resulting from events before the start of the contract so as to avoid any gap in coverage resulting from late claims.

We would be glad to review your insurance cover to ensure that it meets the requirements of the new Product Safety Law. Contact us – our liability specialists will be happy to help.

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Occupational pension plans – FAQs for sales promotions

Several pension funds carry out so-called sales promotions in the autumn, where they inform their insured members of the purchase options in occupational pension plans. As a result, the responsible HR contacts are confronted with an increased volume of questions on this topic.

To ensure that your employees have the best advice, we offer answers to frequently asked questions.

For whom would a purchase be beneficial?
For all insured members of a pension fund who want to improve their future retirement benefits and reduce their tax bill, have savings that they can manage without until retirement or want to invest in something safe that offers attractive interest rates.

What limits are there on the amount I can purchase?
In principle, the difference between the following two amounts may be purchased:
– the amount that could have been saved had the insured person been covered by the current plan at his or her current salary since the commencement of the contribution obligation, minus
– the balance of the insured person’s individual retirement account on the calculation date (any balances on vested benefits policies or accounts and a proportion of the contributions to Pillar 3a made by persons formerly self-employed are also taken into account).

Employees with more than one pension plan should note that the value of all pension plans held must be taken into account.

Some pension funds show the maximum amount that can be purchased on participants’ individual pension statements. If yours does not do this, you should contact your pension fund to ascertain the maximum amount that you can purchase.

Do I have to purchase the maximum amount?
It is important to remember that these are voluntary contributions. Nobody is obliged to make a purchase. Depending on the amount you wish to purchase, it is recommended that you stage your payments so that your taxable income remains at a similar level throughout the contribution years.

The potential amount available for purchase equals the maximum amount that may be purchased. The regulations of most pension funds specify a minimum amount per purchase.

What advantages would I gain by purchasing?
– Any purchases plus the interest they accrue increase your retirement savings and, depending on your pension plan, increase your risk benefits as well. They are exempt from wealth tax, income tax and withholding tax during the contribution period.
– Purchases made from your private assets reduce your taxable income at the time of payment and thereby facilitate a more favourable tax progression.
– Taxation takes place only at the time of disbursement and under advantageous conditions:
  - The lump-sum payment is considered separately from other income and taxed at a reduced tax rate
  - Although pension payments are taxed along with other income, such income tends to be lower after retirement and therefore subject to a lower tax rate.
– Many pension funds offer a higher return on retirement assets than those available on savings account at banks.

What is the return on voluntary payments into the pensions fund?

What happens to the contributions if I die before retirement?
Some pension funds show the purchased capital in a separate account. Where the insured dies prior to retirement, that capital is paid in addition to other death benefits.

With most pension plans, however, the entire retirement capital, including the purchase amounts paid on the death of the insured, are used to finance the pension of the spouse or partner or paid as a lump-sum death benefit. For details on this and who counts as a beneficiary, please consult the rules of your pension fund.

What happens to the contributions if I divorce?
Purchases undertaken during the duration of the marriage or the registered partnership using joint assets are divided proportionately in the event of a divorce or the dissolution of a registered partnership.
Can I withdraw purchases to finance a residential property?
Benefits resulting from a purchase may not be withdrawn as a lump sum for a period of three years following the purchase.

I have already made an early withdrawal for the purposes of acquiring a residential property; can I still make a purchase?
Any advance for the acquisition of residential property must be repaid in full before a purchase can be made.

Our pension fund is currently showing a shortfall; is a purchase advisable under these circumstances?
In the event of a shortfall, purchasing may be detrimental to insured members in the following scenarios:

– Restructuring measures
  The Board of Trustees may agree a zero or reduced interest rate.

– Partial liquidation
  Should your employer sell off parts of the company, massively reduce the workforce or otherwise restructure the company, this may constitute a partial liquidation. If this is the case and the pension fund is showing a shortfall, the transferred pension benefits may be reduced as a consequence of the shortfall.

Your pension fund’s regulations will have a precise definition of what constitutes a partial liquidation and the procedure to be followed in such an event.

I have recently moved to Switzerland – what are the rules regarding purchasing?
The purchasing opportunities for workers who move from abroad and have never belonged to a Swiss pension fund have been subject to restrictions since early 2006. In their first five years in Switzerland, such workers may only invest a maximum of 20% of their insured salary in purchases.

I’m a cross-border commuter; can I make purchases into a pension fund?
If your pension fund’s regulations permit you to make a purchase, there is nothing to prevent you from doing so. You should, however, make enquiries as to whether such a purchase makes sense from a tax perspective for a cross-border commuter.

How do I go about making a purchase?
Refer to the pension regulations that apply to you to find out whether a purchase is possible in your situation. The purchase amount will be calculated by the pension fund. Some pension funds will require you to complete a form in advance. Once you know what you are entitled to purchase, you must decide how much you want to pay in. As already mentioned, larger amounts are better paid in stages over several years.

Please contact the relevant department at your pension fund to find out the procedure for doing this. Where larger amounts are involved, or if you are in any way unsure, it is advisable to contact the competent tax authority in good time to ensure that the total purchase amount may be deducted.

What else needs to be considered?
Any transfer of personal assets into a pension fund is irreversible, even if it subsequently becomes apparent that the purchase was not legitimate from a tax perspective.

Any questions?
If you have any questions that we have not answered satisfactorily here, please feel free to contact Aon Consulting’s pension experts.

Moritz Bürgi, Aon Consulting