*Insight and intelligence on the 2023
Singapore International Reinsurance Conference*

insurance insider

SIRC

China-Taiwan: Insurers limit appetite as instability fears grow

Key points

- Lloyd's testing showed loss scenarios ranging from mid-sized hurricane loss to above
- PV and PR underwriters have heavily cut back their exposures
- PR rates have risen steeply
- Marine insurers rely on short cancellation timeframes for protection

With the roughly $10bn impact of the Ukraine war still working its way through several insurance lines, many in the industry have been considering the potential implications of an escalation of tensions between China and Taiwan.

The economic risks are huge. International Monetary Fund data shows that, since the early 2010s, Taiwan's GDP has grown at a faster rate than the global economy. According to the World Trade Organization, Taiwan was the 16th-largest exporter and 17th-largest importer of merchandise in 2021.

The country is also the world's top contract manufacturer of semiconductor chips, which are used in most electronics.

The more recent outbreak of conflict in Israel has heightened concerns over geopolitical instability.

Amid this volatility, political risk (PR) and political violence (PV) insurers have heavily cut back in Taiwan in recent years, hiking prices and limiting coverage to more geographically specific products.

Meanwhile, marine war carriers are relying on safeguards built into the products allowing them to cancel coverage after a week to mitigate their exposure.

However, Lloyd's stress-test plans show the exposure for the industry could still resemble the hit from a hurricane – suggesting that forward-planning to manage any event is still crucial.

Political risk demand rising but little supply on offer

PR underwriters have "drastically" changed their viewpoint on Taiwan in the past few years after previously seeing it as "benign territory", with many carriers now completely off risk in the region, sources said.

Another source explained that some carriers are more comfortable in taking on the risk if the client is willing to pay a premium that reflects the risk.

Where China and Taiwan may have previously been brought under multi-country policies in the past, coverage now is much likelier to come under a single-country policy.

"And as a result of that, you're seeing pricing increase, policy binding and more elevated pricing levels, because there's less capacity [and] less interest in writing it," the source continued.

"There has been a big impact in our market and demand for business both in terms of number of inquiries, because corporates and banks are more worried, the pricing is being driven upwards."

One underwriting source said that pricing for coverage in China and Taiwan has more than quadrupled.

Roughly two years ago before tensions flared up, pricing was 0.35% on a 15-year risk in the region, "now you're looking at 1.75%-2% per annum for a one-year risk," another source outlined.

Another example of massively increased pricing came from a broking source who explained that, when recently renewing coverage for a client with no claims, discussions started with a 50% increase in pricing, which they described as "huge".

Market participants agreed that the recent escalation of conflict between Russia and Ukraine has had a significant impact on the way in which both clients and carriers approached coverage in China and Taiwan.

Seeing Russia go from a very active member of the global economy to being almost entirely cut off from the West has allowed companies to envision escalation of tensions in Taiwan as a situation "that could actually happen," a source explained.

"Whereas before many thought 'yeah, that can happen to Myanmar', but most companies would have said that's not something that can happen that quick. It's just that realisation that escalation is potentially a real thing."

Busy shipping routes

The war in Ukraine was a painful reminder to the marine market of the claims potential for blocking and trapping, with insurers typically paying out for total losses on ships if they are detained in war zones for over a year.

The mass detention of ships in Ukrainian ports following Vladimir Putin's invasion resulted in a sizeable claims bill for marine war underwriters.

Far higher volumes of maritime trade pass through the Taiwan Strait than through the Black Sea.

Continued on page 4

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COMMENT

Claims severity is back for Ransomware Wave Two

A number of players suggested that the cost components of first-party claims were up between 30%-50% on that seen during Ransomware Wave One, *Catrin Shi* writes

Back in July, I wrote about the return of ransomware, and the impact on the global cyber market.

At the time, the frequency of attacks was back with a vengeance, following a lull thought to have been induced by the onset of war in Ukraine.

Back then there was the suggestion that there had been a rise in ransomware claims frequency, but not necessarily in severity – or at least, it was a mixed picture.

Since then, the picture has developed. Ransomware claims severity is back, and some in the market believe it is exceeding the levels of Ransomware Wave One.

Data from MGA Coalition, published in September, showed that ransomware claims severity reached a record high in the first half of 2023.

This marked a 117% increase year on year and a 61% rise from H2 2022.

Changing tactics

Recent conversations with sources suggest concerns that severity in ransomware claims is continuing to rise into the second half of the year.

Experience is varying widely by carrier so far, and it is tough to get a clear idea of how much severity is spiking on average.

However, from a quick canvass of cyber market participants, a number of players suggested that the cost components of first-party claims were up between 30%-50% on that seen during Ransomware Wave One, which started to show in 2018.

A handful of outliers said they were seeing greater increases than that, while others said they had not seen that kind of severity yet, but had heard instances of it at others.

There are a few reasons for this increased severity.

For one thing, broad-based inflation is driving up the cost of the response services to get victims back up and running.

Hackers' tactics are also changing. Data infiltration is now more standard. This means that a ransomware attack is no longer just focused on denial of access to systems, but hackers are additionally extracting key data and threatening its release if a ransom is not paid.

All of which means longer downtimes, potentially higher BI values and the incentive to pay higher ransoms. If data is indeed released, the costs associated with data breach claims then come into play.

> "Ransomware claims severity is back, and some in the market believe it is exceeding the levels of Ransomware Wave One"

Testing the remediation

This is all happening at a time when rates are continuing to tumble.

The direction of travel on pricing has not altered much since my last ransomware piece in July. Low double-digit rate decreases are still happening – particularly in excess layers – and softening is also occurring in primary layers.

Brokers have been calling for lower deductibles and putting increased pressure on carriers to improve terms for buyers – often with some success.

Reinsurers I have spoken to have talked of downward revisions in 2023 premium targets at cedants, suggesting that rates have fallen faster than expected.

Insurers also privately admit they are missing budgets.

And now, given the changing loss picture, questions are being raised around whether the remediation has worked for the longer term.

It is true that cyber hygiene has improved dramatically at insureds, which overall has been of benefit to the claims picture.

But it's not entirely clear whether wordings imposed during the hard market to control ransomware losses have resolved the question of how to tackle the risk – although it is difficult to ascertain how many of these wordings have fallen away as a result of broker pressure and increased competition.

The market's capitulation on the sub-limiting of ransomware will certainly hurt in a world of increased severity.

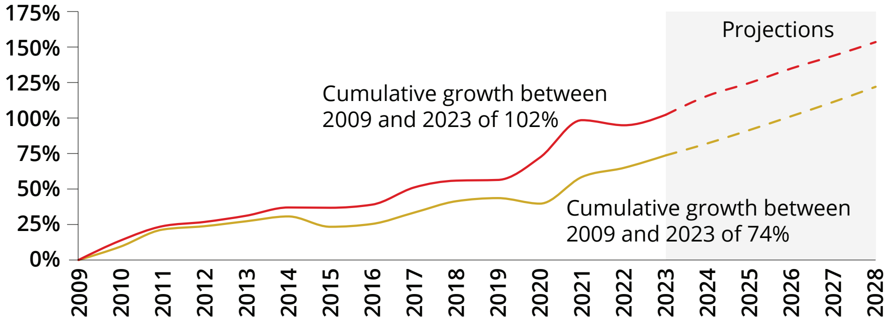
What it does underline is that risk changes more rapidly in cyber than in other classes. The market cannot necessarily rely on the ransomware claims trends (and the corresponding loss picks) of even three years ago to guide how it underwrites the risks of today.

It's too early to tell if there will be a pricing reaction based on what carriers are seeing on the ransomware claims side. Certainly, after several years of compounding rate, some will argue there is enough fat in the book to allow for a little pricing erosion.

Long-time players in the cyber market have often said that the short-tail nature of cyber risk and the closer dialogue with insureds on their cyber security and needs, means the class can adapt more quickly to what it is seeing. As a result, in theory you should expect faster reaction times and shorter pricing cycles.

Should the increase in ransomware frequency and severity continue, it will be a good test of that theory.

Cumulative change in Taiwanese and global GDP



Source: World Economic Forum

Continued from page 1

However, mariners are hopeful that the speedy passage of ships through the area, and the structural advantages of marine war contracts that allow them to charge additional premiums in quick order after the outbreak of hostilities, will mitigate their exposure.

Typically, once an area is deemed a high war risk, underwriters can issue a seven-day notice of cancellation, then begin charging additional premiums for ships operating in the affected seas.

The topic was a talking point at the International Union of Marine Insurance (Iumi) conference in Edinburgh.

Iumi president Frédéric Denèfle noted that quantifying blocking and trapping exposures is highly challenging.

"We do not have a full maximum loss scenario available for that type of situation, and this is a matter of concern for a lot of stakeholders in the industry."

Maritime insurance data platform Insurwave noted that the Taiwan Strait handles 50% of the world's container fleet and is a "geographic bottleneck".

"To put things in perspective, 12% of global trade passes through the Suez Canal, one of the world's most heavily used shipping lanes, which for a time had a significant impact on world trade when it was disrupted in 2021," said Insurwave's commercial director Mark Costin.

"In comparison, estimates of the volume of trade carried through the South China Sea range from 20% to 33%. This equates to thousands of vessels and huge exposure to the global marine industry."

The Ukraine war has also generated a seismic shift in reinsurance costs, deductibles and coverage, meaning most marine underwriters are shouldering far higher risk on a net basis.

In some quarters, this has prompted a reduction in appetite to write war business.

One point raised by sources was that the turnover time at ports is far shorter in and around Taiwan than in Ukraine, meaning shipowners would be able to respond more promptly to a conflict.

And while the marine war market exposures may be huge, the unique and nimble structure of the market allows it to respond rapidly to loss situations.

A situation in which Taiwanese or Chinese waters became at-risk areas, attracting additional premiums, would likely lead to a substantial income stream for the market.

PV segment has low standalone Taiwan exposure

While other sectors of the market are concerned about the looming threat of a conflict between China and Taiwan, PV underwriters are quietly confident they won't see many significant losses.

Market sources canvassed by this publication said there are very few standalone Taiwanese risks in the London market, with the risks that do make their way in often forming part of large portfolios.

One source said they could "count the number of standalone risks on one hand".

There is some concern in the market that electronics supply chains, including microchips for consumer electronics, aircraft and supercomputers, could be disrupted, or there may be a large-scale cyberattack, which would likely fall to the terror market.

However, if there were an attack on electronics supply chains, there would likely be a contingent BI claim and, as always, where the loss falls in the market is entirely dependent on the loss trigger.

PV underwriters have been systemically cutting back exposure in Taiwan for the last few years, resulting in a low level of exposure were a conflict to erupt.

There is also very little strikes, riots and civil commotion (SRCC) coverage in the London market.

Sources said this is largely because Taiwan has been getting excluded from coverage more and more regularly as fears over the potential for conflict rose.

Sources also said the cutbacks were as a result of reinsurers continually asking questions about underwriters' exposure in Taiwan.

Lloyd's tests suggest mid hurricane size losses possible from region

Rising tensions in the region recently saw Lloyd's undertake an ad-hoc review of the market's exposure for several event scenarios in the South China Sea. The outcomes suggest that, combined, the market cannot be complacent over the risks.

The Taiwan Strait scenarios were designed by a third party to consider implications across a wide array of classes including: aviation, cyber, marine, PR, PV and SRCC, and property including contingent BI.

In his Q3 market message, chief of markets Patrick Tiernan explained that the first two scenarios of a blockade and outlying island activity project final net losses which were roughly in line with mid-sized US hurricanes.

The third scenario was more extreme than the others, but in terms of final net loss, lower than a repeat of the KRW storms of 2005 on today's portfolio.

"As a market, we can absorb any of the scenarios, but the issue that we need to focus on is the accumulation of exposure from a relatively small premium base," Tiernan said at the time.

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Q&A: Aon's Liz Henderson and Tom Mortlock

Aon's Liz Henderson, Climate Risk Advisory lead, and Tom Mortlock, Senior Analyst, talk to *Insurance Insider* about how the business is helping its clients address the numerous challenges wrought by climate change

Aon has been involved in the climate space for some years now, so could you tell me what prompted the launch of Climate Risk Advisory?

Over the past several years we've been seeing an increasing need across a broader set of Aon clients to get more in-depth catastrophe and climate insights embedded in their organisation. That's been driven significantly by regulatory action, by investor questions, and by rating agencies which are starting to really look at climate change.

The need to disclose climate-related impacts will impact every organisation which participates in our economy across a wide spectrum of industries. One area of significant focus is on financial institutions, mortgage lenders and commercial loans that might have climate risk embedded in them that is not being quantified or communicated appropriately.

It became such an obvious unmet client need we decided it has to be an official aim and a primary focus for Aon.

Aon's Impact Forecasting team has developed a suite of catastrophe models for a range of perils and geographies; could you tell me how Climate Risk Advisory utilises those capabilities?

One of the benefits that Aon has is, not only do we have access to a wide variety of partners in catastrophe and climate modelling, we have our own in-house modelling team that's developing an independent view of risk. We can look at that model view, alongside other vendors, to help our clients really adapt a multimodal view of climate risk.

The use of Impact Forecasting allows us to look under the hood of models to try to help our clients understand the impacts of various assumptions on the hazard model or the impact on the vulnerability model and financial model and make adjustments to those assumptions which better reflect the organisation that we may be working with.

That ability becomes increasingly important as we're starting to talk to a wider set of clients in the commercial risk space.

You're now working with public sector and financial institutions entities. How has this new set of organisations responded to Aon's solutions? And what has Aon learned from these engagements?

Over the past several years we've seen increasing interest from both public sector and financial institutions in what has been – up until now – traditionally insurance-based analytics around catastrophe and climate risks. These sectors are naturally exposed to physical climate risks because of their longer-term investments in hard assets, whether they be public infrastructure with long engineered design lives, or residential loans on the order of decades.

For both sectors, climate has to date largely been a risk that can either be affordably transferred to the insurance market or comfortably retained. However, with an increasing risk profile across multiple geographies, combined with insurance affordability pressures, climate risk is now becoming a larger part of up-front investment and loan decision-making.

Most of the conversations we've had begin with a future climate lens, but quickly fall back onto helping these organisations understand the materiality of present-day weather and climate to their business. If you get the present-day risk view right, climate projections become far more informative.

For public sector clients, the focus is more on leveraging these analytics to help build resilience into either legacy assets or to undertake due diligence for new developments. For example, we're currently working with government clients to support cost-benefit analyses of where best to raise flood defence levels or property floor heights to reduce flood risk and inform planning policy.

How will Climate Risk Advisory develop in 2024 – where do you plan to augment your capabilities?

There are two big areas of focus for us. Aon is repositioning climate analytics across our Risk Capital organisation. We've created fresh teams to focus holistically on Risk Capital, which was driven by the need to create solutions across that set of clients in a consistent way. We're also focused on emerging risks and one key area is climate litigation and liability risks. We do see a rising need for analytics and risk transfer capabilities to help organisations manage political litigation related to climate change.

Liz Henderson
Aon's Climate Risk Advisory lead

Tom Mortlock
Senior Analyst, Aon

Renewables market navigates manufacturing woes in offshore wind sector

Manufacturing woes plaguing wind turbine producers are contributing to an increasingly challenging underwriting environment in the offshore wind segment of the renewable energy market, sources told this publication.

The rapidly growing offshore wind sector is commonly perceived as one of the most exciting growth opportunities for the energy insurance market, as the insurance industry throws its weight behind the energy transition.

However, this year has seen a succession of bleak financial warnings from some of the world's leading turbine manufacturers, presenting knock-on implications for insurers.

Companies have been buffeted by supply chain logjams, technological failures, inflation and infrastructure constraints – a painful cocktail of developments that is proving a roadblock in the rapid development of the industry.

Combined with the quick rollout of prototypical technology, the environment is growing increasingly complex from an underwriting perspective, and loss severity is a rising concern.

As the insurance industry looks to play a key role in facilitating the energy transition, carriers are also keen to avoid in effect subsidising the development of prototypical technology through unprofitable underwriting.

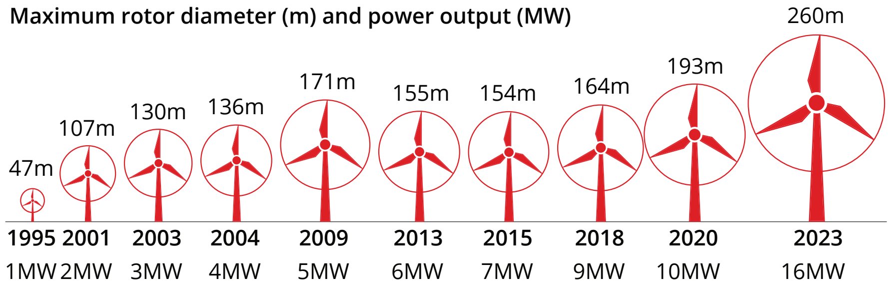
In particular, the massive growth of the size of wind turbines has been flagged as a key concern, which is contributing to rising claims costs.

Nonetheless, capacity continues to redeploy from traditional upstream energy into the offshore wind space.

"10 years ago, clients asked us who is writing renewable energy, and now it is a case of who is not writing it," said WTW's global renewable energy leader, Steven Munday.

The evolution of wind turbines

Maximum rotor diameter (m) and power output (MW)



Source: Allianz, DNV GL, Clarksons, Offshorewind.biz. Data as of September 2023

Incoming capacity has contributed to competition on rates and made charting a course to profitable underwriting difficult, although the long-term growth potential in the class remains highly attractive.

As a result, underwriters are conceding increasingly broad terms to clients at a time when exposures are growing larger and more complex.

A cocktail of challenges

In the turbine manufacturing industry, this year has been marked by a series of increasingly gloomy updates from some of the sector's leading players.

Siemens Energy revealed in August that it expects a loss of EUR4.5bn ($4.7bn) this year due to problems in its wind turbine business, which has been hit by inflation and technical problems.

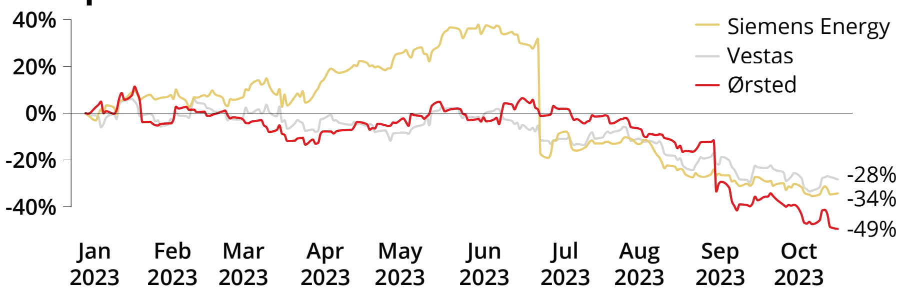
Danish renewables firm Ørsted gave a similarly downbeat update a few weeks later, predicting its projects off the Atlantic coast will require impairment charges of up to 16bn Danish krone ($2.3bn).

Share prices have taken a pummelling.

The bleak outlook in the offshore wind space was exemplified in early September, when a key UK government auction of offshore wind projects received no bids from developers.

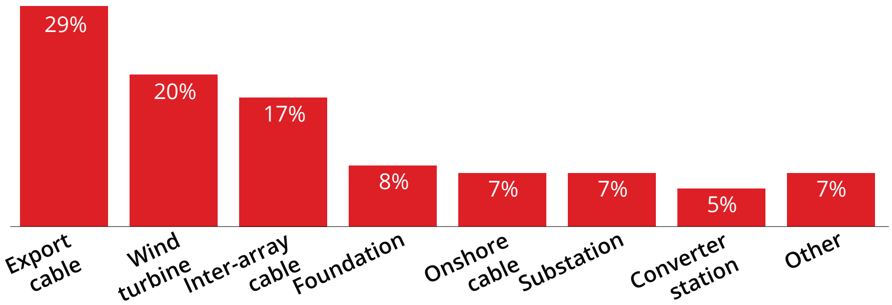
Common issues that companies cited – inflation, supply chain, and technological troubles – are all serious considerations for the insurance market in both the near and long term.

Year-to-date % share-price change of selected European wind turbine manufacturers



Source: S&P Capital Pro

Top causes of claims



Source: Allianz Commercial. Based on 126 claims across Allianz Commercial's offshore wind portfolio in Germany and Central and Eastern Europe, 2014-2020 and 100% claims amount

Impact on claims

Of immediate concern is how the emerging trends can contribute to the increasing severity of losses.

The combination of inflationary pressures and supply chain constraints, coupled with the increasing scale of turbines, is inflating claims.

Fraser McLachlan, CEO of Tokio Marine HCC's renewables division GCube, said: "We are starting to see the severity of claims increasing.

"The frequency has probably ticked up a little bit, but for us it is the severity of the loss that has really ticked up."

Earlier this year, a GCube report found that the average size of offshore wind claims has increased to more than £7mn in 2021 from £1mn ($1.2mn) in 2012.

Furthermore, increased energy costs in the wake of the Ukraine war have contributed to higher BI exposures for operational risks.

"From an insurance perspective it has a massive impact on the quantum of claim you are going to pay from a BI perspective," McLachlan said.

In offshore wind, cable malfunctions remain the driving force of claims, and the growing scale of turbines is only adding to this.

In a recent report, Allianz Commercial found that 53% of offshore wind claims by value in the key geographies of Germany and Central Eastern Europe stemmed from cable damage between 2014-2020.

"With the increasing size of wind farms comes a corresponding increase in cable length and complexity," the report explained.

Looking ahead

The requirement for underwriting dynamism and expertise will be substantial to keep pace with changing technology, with brokers continuing to flag a lack of leaders in the class.

"We are seeing lots more capacity come into the market, but it is supportive, follow market capacity," WTW's Munday said.

"There have still been limited quality leaders in this sector."

A common complaint from incumbent renewables underwriters is that new capacity from the upstream space is underwriting with a reliance on its traditional upstream aggregate models, which fail to account for the unique exposure issues around offshore wind.

In particular, sources said newer markets were more willing to give ground on terms and conditions for exposures such as cables, even though they have been a perennial source of claims.

Despite the structural headwinds, the offshore wind sector is still poised for vast growth.

At the end of 2022, global installed offshore wind capacity stood at 64.3GW, and 380GW is expected to be added over the next 10 years, according to the Global Wind Energy Council.

The opportunity for the insurance industry is correspondingly significant, but there are hurdles to overcome from the increasing complexity of risks.

Some of the largest projected offshore wind growth is in the US and Asia, which brings with it increasing exposure to natural catastrophes.

Then, there is the next technological frontier of the widespread deployment of floating turbines.

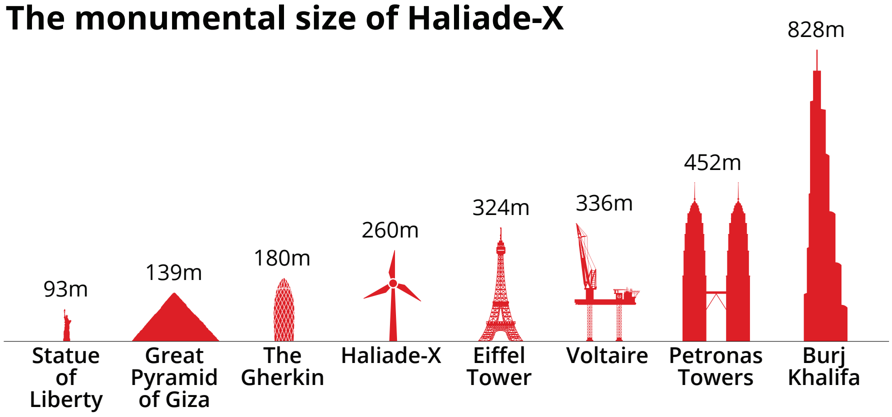
Floating turbines are anchored to the seabed, rather than being fixed in place, allowing them to be constructed in much deeper waters and opening new areas of ocean for potential development.

The complex feat of engineering introduces additional risks for underwriters to manage throughout the construction and operational phase.

In such a rapidly developing industry, stumbling blocks for both developers and the insurance industry are inevitable.

However, ongoing innovation, research and disciplined capital deployment from the insurance market will be essential to underpin this key plank of the energy transition and ensure its long-term sustainability.

The monumental size of Haliade-X



Source: Allianz

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Q&A: Aon's John Morley

Aon's Strategy and Technology Group (STG) launched just over 12 months ago. Could you describe its key offerings?

STG has been operational in Asia Pacific (APAC) for just under 12 months, and we have a growing team that is dedicated to serving our regional client base. We have three main focuses. Firstly, strategy consulting in areas such as market entry and exit, capital strength and growth – operationally and geographically. Then there is finance and actuarial, which focuses on the IFRS regime, appointed actuary work and deeper financial and capital modelling. The third pillar is insurance-specific modelling software for pricing reserving, cashflow projections and capital modelling. Our work generally begins with a client approaching us with a specific business challenge and ends with either a consulting solution or a software solution – or, as often happens, a mix of both.

There are two features that distinguish us from other consultancies: one is our deep domain knowledge, insofar as we only focus on insurance and reinsurance; we're not generalists. Secondly, it is the vast amount of data we hold at Aon, and how we can turn this data into business-enabling information and insights to the benefit our clients.

Another differentiator is that our STG colleagues in APAC have access not only to the hundreds of colleagues internationally in the wider STG team, but also Aon's global network of more than 50,000 colleagues.

Which of the solutions are of most relevance to Aon's APAC clients?

The hard reinsurance market is causing clients some challenges. When it comes to renewals, both the insurers and the reinsurers will be affected by the dynamics and capacity constraints in some areas. In response, we are seeing a drive to more retention, or a drive to better understand profitability and to understand capital management and placement. We have been helping clients navigate volatility in areas such as the creation of internal reinsurance vehicles, to focus and clarify capital usage.

Inflation remains present in the system, and as a result we have seen a significant focus on pricing. Our task is to help shape better decisions for our clients by understanding the pricing environment across specific business lines, and advising them on how to address challenges from the perspectives of people, processes, systems and data. Our pricing software, Aon Pricing Platform, is proving of particular interest here.

Where do you see innovation happening in APAC over the next 12 months? Which areas of your Transformative Trends report is most relevant to the APAC audience?

There is a lot around predictive catastrophe modelling, which involves the rise of AI. AI is obviously a fast-evolving sector, and one that presents opportunities, but it also presents challenges. We know how to use AI to address and use data better, ask more intelligent questions and receive faster answers. But we need to think about how to protect our own data and get the best from the models that already exist.

On the modelling side, we're aiming to be even more predictive. For example, we're seeing cyclones in Australia and flooding in Malaysia and Hong Kong. We are looking at how insurers can move from being less reactive to being more predictive, and are helping to provide solutions and insights to assist clients to better prepare for when natural disasters strike.

Playing an active role in the transition from carbon is another key consideration. In this regard, there are unique challenges in the APAC market, and being a proactive part of the transition journey is key.

Are there emerging operational risks that need to be addressed?

We're seeing '50-year events' happen more and more often, and on the climate side, the risks have already emerged. We're living with that, and the question is how we cope, respond and react. The emerging risks are around political risk which affect supply chains and energy transition. We've already seen those happening as a result of the Ukraine/Russia war, and now there are problems in the Middle East. Asia has its own potential geopolitical flashpoints that must be considered as well.

We hear of the need for insurers to evolve their talent pools, so could you describe the talent situation in APAC?

It's a tight market and varies by country. In China and Hong Kong, the pandemic lockdowns caused a shift and an exit of talent, but we're now seeing that talent flowing back in. The way insurance operates is also changing so, in addition to talent shortages in some areas, we're also seeing the need for new skillsets to come to the fore. Globally, the insurance sector must further increase its efforts to ensure people actively select a (re)insurance career, and the way we approach that challenge in Asia is as important as anywhere else.

John Morley
APAC CEO for Aon's Strategy and Technology Group

Aon steps up search for major US acquisition

The business has engaged with the AssuredPartners process, and has also met with a range of other private brokers including Galway and NFP

Aon has moved up a gear in its search for an acquisition or acquisitions that will allow it to fulfil its ambition to enter the US mid-market and US wholesale segment, this publication understands.

This publication revealed in the spring that Aon became more active in considering scaled acquisitions in Q4 last year. (For background see: "Aon: The moment for dealmaking")

However, sources said that in recent weeks Aon's activity has intensified, with the firm meeting with a range of possible takeover targets.

It is understood that Aon has engaged with AssuredPartners as part of the latter's strategic process, which *Inside P&C* first revealed on September 7. An IPO is also believed to be under consideration for AssuredPartners, as owners GTCR and Apax look to maximize their exit options.

Sources have suggested that Aon has also met with Galway, owner of Epic and Jencap, and MDP-backed NFP, as it searches for a transaction.

Banking sources believe Aon could pull the trigger on a deal as soon as this quarter, or early next year.

Aon: Potential takeover targets

Potential target	Estimated marketing Ebitda	Illustrative valuation at 16x multiple
Truist Insurance	$1,000mn	$16bn
AssuredPartners	$850mn	$14bn
NFP	$700mn	$11bn
Galway	$450mn	$7bn

Source: Insurance Insider reporting

Potential targets

Aon is expected to choose a platform with substantial scale. Galway – the smallest of the three - is likely to be sold off adjusted Ebitda in the $400mn-$500mn range, potentially pointing to a $7bn-$8bn enterprise value transaction.

NFP and AssuredPartners are substantially bigger. NFP reported $536mn of Ebitda to Moody's on a 12-month trailing basis to 30 September last year, suggesting that it is probably on course for ballpark $700mn of adjusted Ebitda this year.

AssuredPartners is being marketed to potential acquirers at around $800mn-$900mn of adjusted Ebitda, pointing to a likely valuation in excess of $12bn, and potentially closer to $15bn.

Sources have also pointed to Truist Insurance as a possible target, with Aon understood to have made a preliminary approach for the firm earlier in the year at the time of its process only to be rebuffed. Truist subsequently sold a 20% stake in the insurance business to Stone Point.

With Truist Insurance's parent bank likely to need additional capital in the coming years, it is on a path to a sell down of its stake. However, the revenue dis-synergies resulting from retail/wholesale channel conflict between Aon and Truist's wholesaler CRC render a deal with Aon a long shot. Marsh is understood to be CRC's largest client, and could be expected to pull all of its business Day 1.

Benefits and drawbacks

All of the different potential deals offer Aon advantages and disadvantages.

Galway offers Aon both a mid-market retail capability, a top-10 wholesaler, an MGA platform in Paragon, and the biggest opportunity to drive margin creation. However, it has a significant amount of leadership that would look to retire, has a heavier weighting to the upper mid-market, and has not built the M&A machine of some other firms.

Aon would have to either pre-empt or come out on top in a sale process for AssuredPartners, which could create upward pressure on valuation and lower execution certainty. The firm has not grown strongly organically and is perceived to have further to go on integration. Founder Jim Henderson is also expected to retire in relatively short order post-deal, with succession now in place in the form of CEO Randy Larsen and president Paul Vredenburg.

The firm has an MGA operation which is likely to be attractive, but lacks wholesale broking.

NFP, meanwhile, is a more integrated business that has a well-oiled M&A machine, and also would bring a recently united MGA platform. However, some believe that the firm's culture could be more challenging to integrate into Aon. In addition, it has a higher weighting to benefits and wealth than peers – and it is not clear that this is Aon's focus. In addition, the market is also watching for the possibility of a management transition at some point with Doug Hammond now in the top job for a decade.

Truist Insurance meanwhile offers wholesale and retail at scale, including significant MGA operations, with the firm around the $1bn mark in Ebitda.

Aon has spent $22bn on buybacks since 2012

FY	Share repurchased	Price per share	Total repurchase cost
2012	21.6mn	$52.16	$1.1bn
2013	16.8mn	$65.65	$1.1bn
2014	25.8mn	$87.18	$2.3bn
2015	16mn	$97.04	$1.6bn
2016	12.2mn	$102.66	$1.3bn
2017	18mn	$133.67	$2.4bn
2018	10mn	$143.94	$1.4bn
2019	10.5mn	$186.33	$2bn
2020	8.5mn	$206.28	$1.8bn
2021	12.4mn	$286.82	$3.5bn
2022	11.1mn	$289.76	$3.2bn

Source: Company financial reports

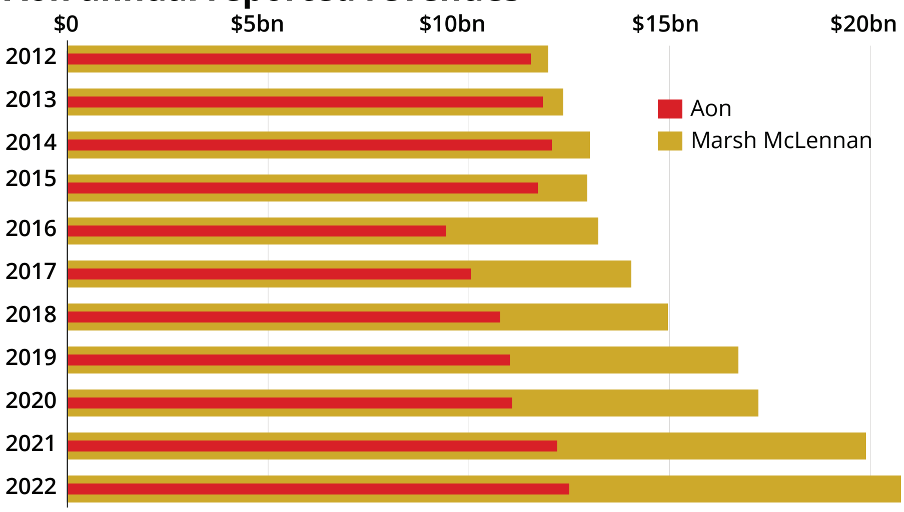
However, revenue breakage in CRC would be huge, and McGriff has been a low growth business that has been quiet on M&A.

As previously argued, the time looks to be right for Aon to pursue a major transaction. This reflects the expectation that market-driven organic growth will fade in the coming quarters. In addition, there are an increasing range of available assets willing to consider strategic sales alongside other financing options given the higher cost of debt's cooling influence on PE interest. (For background see: "Broker M&A: When private equity's interest cools")

There has also been some downward movement in platform valuations since last year's peak.

Further, after just over two years, enough time has likely passed since the abortive Willis deal to give Greg Case and his management team the freedom to move.

Aon annual reported revenues



Source: S&P Capital IQ Pro

The potential interest of the antitrust regulators in the US remains a potential wildcard that could upset Aon's efforts to buy into new segments, or new parts of the value chain. Sources perceive a mid-market play as lower risk given that Aon is not active in the segment.

Vertical integration in the value chain through a sizeable wholesale acquisition is seen as more likely to draw adverse interest from the FTC or DOJ.

Capital deployment

Aon's capital deployment framework has long favoured share buybacks, as it seeks a high cash-on-cash return, with the approach helping drive remarkable share price appreciation in recent years.

If a management team values its stock highly, this is always likely to be perceived as a higher return on capital for cash generated.

However, it is understood that Aon is preparing to flex its capital deployment framework owing to the perceived strategic imperative to enter new markets.

Aon is likely to frame such a move in terms of servicing a broader range of clients, and opening up new markets for growth.

However, it likely also owes something to the reality that size matters in broking.

Aon has allowed itself to be outgrown significantly by Marsh McLennan. In 2012 Aon's revenue base was 96% the size of Marsh McLennan, and in 2022 it was 60% its size.

As previously argued, short-term this may not matter in terms of serving clients or driving shareholder returns. But in an industry where consolidation has been a huge driver of value and the consolidation game is far from played out, Aon will suffer in the longer term from sitting on the sidelines and buying back stock.

Short-term rational can be long-term irrational.

Aon has headroom to take on roughly $5bn of additional debt to fund M&A without endangering its rating, but would also be able to deploy its free cashflow alongside issuing shares.

Aon declined to comment.

Optimize and Diversify Capital Strategies

As a more stable market brings optimism, Aon's focus this renewal season is creating capacity to enable insurers to diversify with new sources of capital.

To help our clients make better decisions, we are building stronger reinsurer partnerships, accessing diversified capital sources and driving differentiation so clients feel seen and understood by trading partners.

Discover more on our Reinsurance Renewal Season Platform.