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Aon and WTW's Mega-Merger Could Create 'Winners and Losers'

By Aziza Kasumov

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Aon’s merger with Willis Towers Watson (WTW), announced Monday, is expected to consolidate power at the top of the consulting world, given their combined reach. The deal will likely impact a wide net of managers and competitors in the outsourced CIO (OCIO) space.

Together, Aon and Willis Towers Watson, which estimated their combined companies’ valuation at $80 billion, consult on more than $6.1 trillion in assets globally. The two, together, also oversee roughly $300 billion in assets on a discretionary basis worldwide.

“One of their big competitive advantages is they get discounted pricing for their end clients,” says **Amanda Tepper**, CEO and founder at Chestnut Advisory Group. Now that the combined firms will have even more scale, they might ask for an additional discount, she notes.

But tougher fee negotiations aren’t the only way the deal, which is expected to close in the first half of 2021, could impact managers.

The combined consultants’ allocation to a single manager might reach a manager’s capacity constraints, forcing them to allocate less to that manager, Tepper says. Integrating the two distinct manager-rating systems might also have an impact on some managers’ standing with the firms.

“Some managers will win, and some will lose,” Tepper says.

Spokespeople from Aon and Willis Towers Watson both declined to share further details on the planned integration of the firms’ investment consulting and OCIO business lines. The two units were not specifically addressed during a conference call about the merger on Monday.

Aon and Willis Towers Watson leadership did, however, say they expect the two firms, once combined, to be “better placed to deliver new solutions in areas like cyber risk, intellectual property, and climate risk,” Aon CFO **Christa Davies**, said on the call.

Within their respective defined benefit (DB) plan offerings, the two firms see room to work more closely together as well. **John Haley**, CEO of Willis Towers Watson, said on the call that his firm’s pension management tool, **OneDB**, is “exactly the kind of innovative [property] that can be developed further across the broader organization to deliver additional client value.”

Haley will serve as executive chairman, focusing on growth and innovation for the combined businesses, which will operate under the Aon brand and stay headquartered in London, according to a press release announcing the merger. Aon's current CEO, **Greg Case**, and CFO, Davies, will lead the combined firm. The board of directors will be filled proportionally with members from both firms' current boards. Once the deal is completed, existing Aon shareholders will own 63% and Willis Towers Watson shareholders will hold 37% of the combined firm, according to the press release.

While the deal won't close for another year, search consultants say they see how, especially for the firms' OCIO business lines, the merger makes sense.

A lot more corporations are starting to freeze their defined benefit plans and are looking to outsource management of the assets, says **Tony Johnson**, a senior consultant and director of Midwest consulting at RVK's OCIO search unit. "Having that size of a platform is beneficial for some of the corporation clients," he adds. "Within the DB world, this [merger] should make them a stronger player in the market."

Many OCIO providers see defined benefit and defined contribution as prime areas for growth in the next few years, as reported.

"What you need to be a good OCIO on the DB side, where a lot of [Aon's and Willis Towers Watson's] business is, … [is] a lot of technology to manage hundreds and hundreds of clients on liability-driven investing glide paths," says **Anna Dunn Tabke**, principal at search firm Alpha Capital Management. "They'll benefit a lot from combining their forces there," she adds.

But bigger is not always better when it comes to winning OCIO mandates. In fact, 40% of search-consultant-intermediated OCIO mandates surveyed for a Cerulli Associates report last year went to boutique firms.

Especially on the nonprofit side, clients tend to want "more custom and high-touch" services, says Tepper. While she believes the additional scale will benefit Aon and Willis Towers Watson "across the board," others say it could make things more difficult with some clients.

"It's going to be a challenge for them on the nonprofit side, I think," says Tabke.

Aside from the client base, search consultants say they will want to know who is going to be in charge of the merged OCIO units, and how the platforms will be merged.

"I think, if they were involved with a search now, it's probably going to be a heightened level of due diligence," RVK's Johnson adds.

Aon had previously evaluated whether to buy Willis Towers Watson but scrapped those plans a year ago, as reported. Now that the merger is back on the books, it will likely become the largest in the industry so far, despite a decade of consolidation that has seen many investment consultants swallowed by ever-bigger rivals.

"We've obviously seen a lot of consolidation, but for two of the big three to combine, that was really ... very surprising to us," says Tabke, with a nod to Mercer, the third big investment consulting firm at the top of the industry.

“It just shows how competitive the space has gotten,” says Tepper. “This is potentially a sign that manager selection as your primary differentiator is harder and harder to get paid for in the marketplace.”

Contact the reporter on this story at akasumov@fundfire.com or (212) 542-1209.