

Aon plc  
Form 10-K  
February 23, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-7933

Aon plc  
(Exact name of registrant as specified in its charter)  
ENGLAND AND WALES 98-1030901  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

122 LEADENHALL STREET, EC3V 4AN  
LONDON, ENGLAND (Zip Code)  
(Address of principal executive offices)

+44 20 7623 5500  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Ordinary Shares, \$0.01 nominal value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Exchange Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if  
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T  
(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required  
to submit and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained  
herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company.)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

As of June 30, 2016, the aggregate market value of the registrant’s Class A Ordinary Shares held by non-affiliates of the registrant was \$29,031,404,998 based on the closing sales price as reported on the New York Stock Exchange — Composite Transaction Listing.

Number of Class A Ordinary Shares of Aon plc, \$0.01 nominal value, outstanding as of February 22, 2017:  
262,600,762.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Aon plc’s Proxy Statement for the 2017 Annual General Meeting of Shareholders to be held on June 23, 2017 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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## PART I

### Item 1. Business

#### OVERVIEW

Aon plc (which may be referred to as “Aon,” “the Company,” “we,” “us,” or “our”) is the leading global provider of risk management services, insurance and reinsurance brokerage, and human resource consulting and outsourcing, delivering distinctive client value via innovative and effective risk management and workforce productivity solutions. Our strategy is to be the preeminent professional service firm in the world, focused on the topics of risk and people. We have approximately 69,000 employees and conduct our operations through various subsidiaries in more than 120 countries and sovereignties.

We serve clients through the following reportable segments:

Risk Solutions acts as an advisor and insurance and reinsurance broker, helping clients manage their risks via consultation, as well as negotiation and placement of insurance risk with insurance carriers through our global distribution network.

HR Solutions partners with organizations to solve their most complex human capital and related financial challenges in the areas of health, retirement and talent. We are dedicated to improving business performance and our clients’ employees’ experience by designing, implementing, communicating and administering a wide range of human capital, retirement, investment consulting, health care, compensation, and talent management strategies.

Our clients are globally diversified and include all market segments (individuals through personal lines, mid-market companies and large global companies) and almost every industry in the economy in over 120 countries and sovereignties. This diversification of our customer base helps provide us stability in different economic scenarios that could affect specific industries, customer segments or geographies.

We have continued to focus our portfolio on higher margin, capital-light professional services businesses that have high recurring revenue streams and strong cash flow generation. Aon endeavors to make capital allocation decisions based upon return on invested capital (“ROIC”).

In 2016, 64% of our consolidated total revenues were in Risk Solutions and 36% of our consolidated total revenues were in HR Solutions, before intersegment eliminations.

On February 9, 2017, we entered into an agreement to sell our Benefits Administration and Business Process Outsourcing (BPO) Portfolio (the “Business”) for cash consideration of \$4.3 billion payable at closing plus additional cash consideration of up to \$500 million based on future performance of the Business (the “Transaction”). The Business is within the HR Solutions segment described further below. The completion of the Transaction is subject to customary closing conditions, and the Transaction is expected to close by the end of the second quarter of 2017. In connection with the Transaction, we expect to implement a cost reduction program.

#### BUSINESS SEGMENTS

##### Risk Solutions

The Risk Solutions segment generated approximately 64% of our consolidated total revenues in 2016, and has approximately 33,000 employees worldwide. We provide risk mitigation solutions, including insurance and reinsurance brokerage, risk consulting, and related services in this segment.

##### Principal Products and Services

We operate in this segment through two similar transactional product lines: retail brokerage and reinsurance brokerage. In addition, a key component of this business is our risk consulting services.

Retail brokerage encompasses our retail brokerage services, affinity products, managing general underwriting, placement, captive management services, and our Inpoint data and analytics solutions, including Risk/View. Our Americas operations provide products and services to clients in North, Central and South America, the Caribbean, and Bermuda. Our International operations in the U.K.; Europe, Middle East and Africa; and Asia Pacific offer these products and services to clients throughout the rest of the world.

Our employees draw upon our global network of resources, sophisticated data and analytics, and specialized expertise to deliver value to clients ranging from small and mid-sized businesses to multi-national corporations. We work with clients to identify their business needs and help them assess and understand their total cost of risk. Once we have gained an understanding of our clients' risk management needs, we seek to leverage our global network and implement a customized risk approach with local Aon resources. The outcome is intended to be a comprehensive risk solution provided locally and personally. The Aon Client Promise® enables our colleagues around the globe to describe, benchmark, and price the value we deliver to clients in a unified approach, based on the most important criteria that are critical to our clients' ability to manage their total cost of risk.

Our expertise and foresight, benchmarking, and carrier knowledge are keys to providing professional services excellence. We intend to deliver superior value to clients and differentiation from competitors through our key Aon Broking initiatives, which position us to provide our clients and insurers with additional market insight as well as new product offerings and facilities.

As a retail broker, we serve as an advisor to clients and facilitate a wide spectrum of risk management solutions for property liability, general liability, professional and directors' and officers' liability, transaction liability, cyber liability, workers' compensation, and various healthcare products, as well as other exposures. Our business is comprised of several specialty areas structured around specific product and industry needs.

We offer specialized advice and services in such industries as technology, financial services, agribusiness, aviation, construction, health care, and energy, among others. Through our global affinity business, we provide products for professional liability, life, disability income, and personal lines for individuals, associations, and businesses around the world.

In addition, we are a major provider of risk consulting services, including captive management, that provide our clients with alternative vehicles for managing risks that would be cost-prohibitive or unavailable in traditional insurance markets.

Our health and benefits consulting practice advises clients about structuring, funding, and administering employee benefit programs, which attract, retain, and motivate employees. Benefits consulting and brokerage includes health and welfare, executive benefits, workforce strategies and productivity, absence management, data-driven health, compliance, employee commitment, and elective benefits services.

Our Cyber Solutions Group identifies and protects clients' critical assets by aligning their cybersecurity strategy with their corporate culture and risk tolerance. Our goal is to empower clients with enterprise wide cyber resilience in the face of rapidly evolving threats before, during, and after a cybersecurity incident.

Reinsurance brokerage offers sophisticated advisory services in program design and claim recoveries intended to enhance the risk/return characteristics of insurance policy portfolios, improve capital utilization, and evaluate and mitigate catastrophic loss exposures worldwide. An insurance or reinsurance company may seek reinsurance or other risk-transfer solutions on all or a portion of the risks it insures. To accomplish this, our reinsurance brokerage services use dynamic financial analysis and capital market alternatives, such as transferring catastrophe risk through securitization. Reinsurance brokerage also offers capital management transaction and advisory services.

We act as a broker or intermediary for all classes of reinsurance. We place two main types of property and casualty reinsurance: treaty reinsurance, which involves the transfer of a portfolio of risks, and facultative reinsurance, which entails the transfer of part or all of the coverage provided by a single insurance policy. We also place specialty lines such as professional liability, workers' compensation, accident, life and health.

We also provide actuarial, enterprise risk management, catastrophe management and rating agency advisory services. We have developed tools and models that help our clients understand the financial implications of natural and man-made catastrophes around the world. Aon Securities Inc. provides global capital management transaction and advisory services for insurance and reinsurance clients. In this capacity, Aon Securities Inc. is recognized as a leader in the structuring, underwriting and trading of insurance-linked securities, the arrangement of financing for insurance and reinsurance companies, including Lloyd's syndicates, and providing advice on strategic and capital alternatives, including mergers and acquisitions.

In addition, our Inpoint business is a leading provider of consulting services to the insurance and reinsurance industry, helping carriers improve their performance to achieve growth and profitability.

Revenue and Compensation

Our Risk Solutions segment generates revenues primarily through commissions, fees from clients, and compensation from insurance and reinsurance companies for services we provide to them. Commission rates and fees vary depending upon several factors, which may include the amount of premium, the type of insurance or reinsurance coverage provided, the particular services provided to a client, insurer or reinsurer, and the capacity in which we act. Payment terms are consistent with current industry practice.

#### Fiduciary Funds

We typically hold funds on behalf of clients such as premiums received from clients and claims due to clients that are in transit to and from insurers. These funds held on behalf of clients are generally invested in interest-bearing premium trust accounts and can fluctuate significantly depending on when we collect cash from our clients and when premiums are remitted to the insurance carriers. We earn interest on these accounts; however, the principal is segregated and not available for general operating purposes.

#### Competition

Our Risk Solutions business operates in an environment that is highly competitive and very fragmented. We compete with other global insurance brokers, including Marsh & McLennan Companies, Inc., Willis Towers Watson Public Limited Company, Arthur J Gallagher & Company, and Jardine Lloyd Thompson Group plc, as well as numerous specialist, regional and local firms in almost every area of our business. We also compete with insurance and reinsurance companies that market and service their insurance products without the assistance of brokers or agents; and with other businesses that do not fall into the categories above, including commercial and investment banks, accounting firms, and consultants that provide risk-related services and products.

#### HR Solutions

Our HR Solutions segment generated approximately 36% of our consolidated total revenues in 2016, and has approximately 30,000 employees worldwide with operations in the U.S., Canada, the U.K., Europe, and the Asia Pacific regions.

#### Principal Products and Services

We provide products and services in this segment primarily under the Aon Hewitt brand, and operate through two similar transactional product lines: outsourcing and consulting.

Our HR Solutions segment works to maximize the value of clients' human resources spending, increase employee productivity, and improve employee performance. Our approach addresses a trend towards more diverse workforces (demographics, nationalities, cultures and work/lifestyle preferences) that require more choices and flexibility among employers so that they can provide benefit options suited to individual needs.

We work with our clients to identify options in human resource outsourcing and process improvements. The primary areas where companies choose to use outsourcing services include benefits administration, core human resource processes, and workforce and talent management.

HR Solutions offers a broad range of human capital services in the following practice areas:

Retirement specializes in providing global actuarial services, defined contribution consulting, pension de-risking, tax and Employee Retirement Income Security Act (ERISA) consulting, and pension administration.

Compensation focuses on compensation advisory/counsel including: compensation planning design, executive reward strategies, salary survey and benchmarking, market share studies and sales force effectiveness assessments, with special expertise in the financial services, technology, and life science industries.

Strategic Human Capital delivers advice to complex global organizations on talent, change and organizational effectiveness issues, including talent strategy and acquisition, executive on-boarding, performance management, leadership assessment and development, communication strategy, workforce training and change management.

Investment consulting provides public and private companies and other institutions, such as trustees, with advice on developing and maintaining investment programs across a broad range of plan types, including defined benefit plans, defined contribution plans, endowments and foundations. In certain instances, we also perform delegated management services in relation to these plans.

Benefits Administration applies our HR expertise primarily through defined benefit, defined contribution, and health and welfare administrative services. We also provide other complementary services such as flexible spending, dependent audit, and participant advocacy. Our model replaces the resource-intensive processes once required to administer benefit plans with more efficient, effective and less costly solutions.

Exchanges is building and operating health care exchanges that provide employers with a cost effective alternative to traditional employee and retiree healthcare, while helping individuals select the insurance that best meets their needs.

Human Resource Business Process Outsourcing ("HR BPO") provides market-leading traditional and cloud-based solutions to deploy systems, manage employee data, administer benefits, payroll and other human resources processes,

and record and manage talent, workforce, and other core HR process transactions.

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### Revenue and Compensation

HR Solutions revenues are principally derived from fees paid by clients for advice and services. In addition, insurance companies pay us commissions for placing individual and group insurance contracts, primarily life, health, and accident coverage, and pay us fees for consulting and other services that we provide to them. Payment terms are consistent with current industry practice.

### Competition

Our HR Solutions business faces strong competition from other worldwide and national consulting companies, including Marsh & McLennan Companies, Inc. and Willis Towers Watson Public Limited Company, as well as regional and local firms. Competitors include independent consulting firms and consulting organizations affiliated with accounting, information systems, technology and financial services firms, large financial institutions, and pure play outsourcers. Some of our competitors provide administrative or consulting services as an adjunct to other primary services.

### Seasonality

Due to buying patterns and delivery of certain products in the markets we serve, revenues recognized tend to be highest in the fourth quarter of each fiscal year.

### Licensing and Regulation

Our business activities are subject to licensing requirements and extensive regulation under the laws of countries in which we operate, as well as U.S. federal and state laws. See the “Risk Factors” section in Part I, Item 1A of this report for information regarding how actions by regulatory authorities or changes in legislation and regulation in the jurisdictions in which we operate may have an adverse effect on our business.

### Risk Solutions

Regulatory authorities in the countries or states in the U.S. in which the operating subsidiaries of our Risk Solutions segment conduct business may require individual or company licensing to act as producers, brokers, agents, third-party administrators, managing general agents, reinsurance intermediaries, or adjusters.

Under the laws of most countries and states, regulatory authorities have relatively broad discretion with respect to granting, renewing, and revoking producers’, brokers’, and agents’ licenses to transact business in the country or state. The operating terms may vary according to the licensing requirements of the particular country or state, which may require, among other things that a firm operates in the country or state through a local corporation. In a few countries and states, licenses may be issued only to individual residents or locally owned business entities. In such cases, our subsidiaries either have such licenses or have arrangements with residents or business entities licensed to act in the country or state.

Our subsidiaries must comply with laws and regulations of the jurisdictions in which they do business. These laws and regulations are enforced by the Financial Conduct Authority (“FCA”) in the U.K., by federal and state agencies in the U.S., and by various regulatory agencies and other supervisory authorities in other countries through the granting and revoking of licenses to do business, licensing of agents, monitoring of trade practices, policy form approval, limits on commission rates, and mandatory remuneration disclosure requirements.

Insurance authorities in the U.K., U.S. and certain other jurisdictions in which our subsidiaries operate also have enacted laws and regulations governing the investment of funds, such as premiums and claims proceeds, held in a fiduciary capacity for others. These laws and regulations generally require the segregation of these fiduciary funds and limit the types of investments that may be made with them.

Further, certain of our business activities within the Risk Solutions segment are governed by other regulatory bodies, including investment, securities, and futures licensing authorities. For example, in the U.S., we use Aon Securities, Inc., a U.S.-registered broker-dealer and investment advisor, member of the Financial Industry Regulatory Authority (“FINRA”) and Securities Investor Protection Corporation, and an indirect, wholly owned subsidiary of Aon, for capital management transaction and advisory services and other broker-dealer activities. Similar operations exist in other jurisdictions outside of the U.S.

### HR Solutions

Certain of the retirement-related consulting services provided by Aon Hewitt and its subsidiaries and affiliates are subject to the pension and financial laws and regulations of applicable jurisdictions, including oversight and/or

supervision by the FCA in the U.K., the Securities and Exchange Commission (“SEC”) in the U.S., and regulators in other countries. Aon Hewitt subsidiaries that provide investment advisory services are regulated by various U.S. federal authorities including the SEC and FINRA, as well as authorities on the state level. In addition, other services provided by Aon Hewitt and its subsidiaries and affiliates, such as

trustee services and retirement and employee benefit program administrative services, are subject in various jurisdictions to pension, investment and securities and/or insurance laws and regulations and/or supervision by national regulators.

#### Clientele

Our clients operate in many businesses and industries throughout the world. No one client accounted for more than 1% of our consolidated total revenues in 2016. Additionally, we place insurance with many insurance carriers, none of which individually accounted for more than 10% of the total premiums we placed on behalf of our clients in 2016.

#### Segmentation of Activity by Type of Service and Geographic Area of Operation

Financial information relating to the types of services provided by us and the geographic areas of our operations is incorporated herein by reference to Note 15 “Segment Information” of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

#### Employees

At December 31, 2016, we employed approximately 69,000 employees.

#### Information Concerning Forward-Looking Statements

This annual report on Form 10-K contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent management’s expectations or forecasts of future events. Forward-looking statements are typically identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “project,” “intend,” “plan,” “probably,” “potential,” “looking forward,” “continue,” and other terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would.” You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure and the outcome of cost-saving or restructuring initiatives; the outcome of contingencies; dividend policy; the expected impact of acquisitions and dispositions; pension obligations; cash flow and liquidity; expected effective tax rate; future actions by regulators; and the impact of changes in accounting rules. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors, which may be revised or supplemented in subsequent reports filed or furnished with the SEC, that could impact results include:

- general economic and political conditions in different countries in which we do business around the world;

- changes in the competitive environment;

- fluctuations in exchange and interest rates that could influence revenues and expenses;

- changes in global equity and fixed income markets that could affect the return on invested assets;

- changes in the funding status of our various defined benefit pension plans and the impact of any increased pension funding resulting from those changes;

- the level of our debt limiting financial flexibility or increasing borrowing costs;

- rating agency actions that could affect our ability to borrow funds;

- the effect of the change in global headquarters and jurisdiction of incorporation, including differences in the anticipated benefits;

- changes in estimates or assumptions on our financial statements;

- limits on our subsidiaries to make dividend and other payments to us;

- the impact of lawsuits and other contingent liabilities and loss contingencies arising from errors and omissions and other claims against us;

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the impact of, and potential challenges in complying with, legislation and regulation in the jurisdictions in which we operate, particularly given the global scope of our businesses and the possibility of conflicting regulatory requirements across jurisdictions in which we do business;

the impact of any investigations brought by regulatory authorities in the U.S., U.K. and other countries;

the impact of any inquiries relating to compliance with the U.S. Foreign Corrupt Practices Act and non-U.S. anti-corruption laws and with U.S. and non-U.S. trade sanctions regimes;

failure to protect intellectual property rights or allegations that we infringe on the intellectual property rights of others;

the effects of English law on our operating flexibility and the enforcement of judgments against us;

the failure to retain and attract qualified personnel;

international risks associated with our global operations;

the effect of natural or man-made disasters;

the potential of a system or network breach or disruption resulting in operational interruption or improper disclosure of personal data;

our ability to develop and implement new technology;

damage to our reputation among clients, markets or third parties;

the actions taken by third parties that perform aspects of our business operations and client services;

the extent to which we manage certain risks created in connection with the various services, including fiduciary and investments and other advisory services and business process outsourcing services, among others, that we currently provide, or will provide in the future, to clients;

our ability to continue, and the costs associated with, growing, developing and integrating companies that we acquire or new lines of business;

changes in commercial property and casualty markets, commercial premium rates or methods of compensation;

impact of the pending sale of our Benefits Administration and HR Business Process Outsourcing Platform;

changes in the health care system or our relationships with insurance carriers; and

our ability to implement initiatives intended to yield cost savings and the ability to achieve those cost savings.

Any or all of our forward-looking statements may turn out to be inaccurate, and there are no guarantees about our performance. The factors identified above are not exhaustive. Aon and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, readers should not place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement that we may make from time to time, whether as a result of new information, future events or otherwise. Further information about factors that could materially affect Aon, including our results of operations and financial condition, is contained in the “Risk

Factors” section in Part I, Item 1A of this report.

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#### Website Access to Reports and Other Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are made available free of charge through our website (<http://www.aon.com>) as soon as practicable after such material is electronically filed with or furnished to the SEC. Additionally, the SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information. Also posted on our website are the charters for our Audit, Compliance, Organization and Compensation, Governance/Nominating and Finance Committees, our Governance Guidelines and our Code of Business Conduct. Within the time period required by the SEC and the New York Stock Exchange (“NYSE”), we will post on our website any amendment to or waiver of the Code of Business Conduct applicable to any executive officer or director. The information provided on our website is not part of this report and is therefore not incorporated herein by reference.

#### Item 1A. Risk Factors

The risk factors set forth below reflect material risks associated with existing and potential lines of business and contain “forward-looking statements” as discussed in the “Business” Section of Part I, Item 1 of this report. Readers should consider them in addition to the other information contained in this report as our business, financial condition or results of operations could be adversely affected if any of these risks were to actually occur.

The following are material risks related to our businesses specifically and the industries in which we operate generally that could adversely affect our business, financial condition and results of operations and cause our actual results to differ materially from those stated in the forward-looking statements in this document and elsewhere.

##### Risks Relating to the Company Generally

###### Competitive Risks

An overall decline in economic activity could have a material adverse effect on the financial condition and results of operations of our businesses.

The demand for property and casualty insurance generally rises as the overall level of economic activity increases and generally falls as such activity decreases, affecting both the commissions and fees generated by our Risk Solutions business. The economic activity that impacts property and casualty insurance is most closely correlated with employment levels, corporate revenue and asset values. Downward fluctuations in the year-over-year insurance premium charged by insurers to protect against the same risk, referred to in the industry as softening of the insurance market, could adversely affect our Risk Solutions business as a significant portion of the earnings are determined as a percentage of premium charged to our clients. Insolvencies and consolidations associated with an economic downturn, especially insolvencies in the insurance industry, could adversely affect our brokerage business through the loss of clients by hampering our ability to place insurance and reinsurance business. Also, error and omission claims against us, which we refer to as E&O claims, may increase in economic downturns, also adversely affecting our brokerage business.

The results of our HR Solutions business are generally affected by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets these clients serve. Economic downturns in some markets may cause reductions in technology and discretionary spending by our clients, which may result in reductions in the growth of new business or reductions in existing business. If our clients become financially less stable, enter bankruptcy, liquidate their operations or consolidate, our revenues and collectability of receivables could be adversely affected. In addition, our revenues from many of our outsourcing contracts depend upon the number of our clients’ employees or the number of participants in our clients’ employee benefit plans and could be adversely affected by layoffs. We may also experience decreased demand for our services as a result of postponed or terminated outsourcing of human resources functions. Reduced demand for our services could increase price competition.

We face significant competitive pressures in each of our businesses.

We believe that competition in our Risk Solutions segment is based on service, product features, price, commission structure, financial strength, ability to access certain insurance markets and name recognition. In this regard, we compete with a large number of global, national, regional and local insurance companies and other financial services providers and brokers.

Our HR Solutions segment competes with a large number of independent firms and consulting organizations affiliated with accounting, information systems, technology and financial services firms around the world. Many of our competitors in this area are expanding the services they offer or reducing prices in an attempt to gain additional business. Additionally, some competitors have established, and are likely to continue to establish, cooperative relationships among themselves or with third parties to increase their ability to address client needs.

Our competitors may have greater financial, technical and marketing resources, larger customer bases, greater name recognition, stronger presence in certain geographies and more established relationships with their customers and suppliers than



we have. In addition, new competitors, alliances among competitors or mergers of competitors could emerge and gain significant market share, and some of our competitors may have or may develop a lower cost structure, adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services that we offer or develop. Competitors may be able to respond to the need for technological changes and innovate faster, or price their services more aggressively. They may also compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share more effectively than we do. To respond to increased competition and pricing pressure, we may have to lower the cost of our services or decrease the level of service provided to clients, which could have an adverse effect on our financial condition or results of operations.

#### Financial Risks

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

We face exposure to adverse movements in exchange rates of currencies other than our reporting currency, the U.S. dollar, as a significant portion of our business is located outside of the United States. These exposures may change over time, and they could have a material adverse impact on our financial results and cash flows. Our five largest non-U.S. dollar exposures are the British pound, Euro, Australian dollar, Canadian dollar and Indian rupee; however, we also have exposures to other currencies that can have significant currency volatility. These currency exchange fluctuations create risk in both the translation of the financial results of our global subsidiaries into U.S. Dollars for our consolidated financial statements, as well as in those of our operations that receive revenue and incur expenses other than in their respective local currencies, which can reduce the profitability of our operations based on the direction the respective currencies' exchange rates move. A decrease in the value of certain currencies relative to other currencies could place us at a competitive disadvantage compared to our competitors that benefit to a greater degree from a specific exchange rate move and can, as a result, deliver services at a lower cost or receive greater revenues from such a transaction. Although we use various derivative financial instruments to help protect against adverse foreign exchange rate fluctuations, we cannot eliminate such risks, and, as a result, changes in exchange rates may adversely affect our results. For example, the strengthening of the value of the U.S. dollar versus other currencies might adversely affect the value of our products and services when translated to U.S. dollar, even if the value of such products and services has not changed in their original currency.

Changes in interest rates and deterioration of credit quality could reduce the value of our cash balances and investment portfolios and adversely affect our financial condition or results.

Operating funds available for corporate use were \$721 million at December 31, 2016 and are reported in Cash and cash equivalents and Short-term investments. Funds held on behalf of clients and insurers were \$3.8 billion at December 31, 2016 and are reported in Fiduciary assets. We also carry an investment portfolio of other long-term investments. As of December 31, 2016, these long-term investments had a carrying value of \$119 million. Adverse changes in interest rates, performance, and counterparty credit quality, including default, could reduce the value of these funds and investments, thereby adversely affecting our financial condition or results. We may continue to experience reduced investment earnings on our cash and short-term investments of fiduciary and operating funds if the yields on investments deemed to be low risk remain at or near their current low levels, or if negative yields on deposits or investments, as we have experienced in Japan and certain jurisdictions in the European Union, continue or arise in the jurisdictions in which we operate. On the other hand, higher interest rates could result in a higher discount rate used by investors to value our future cash flows thereby resulting in a lower valuation of the Company. In addition, during times of stress in the banking industry, counterparty risk can quickly escalate, potentially resulting in substantial losses for us as a result of our cash or other investments with such counterparties, as well as substantial losses for our clients and the insurance companies with which we work.

Our pension obligations could adversely affect our shareholders' equity, net income, cash flow and liquidity.

To the extent that the pension obligations associated with our pension plans continue to exceed the fair value of the assets supporting those obligations, our financial position and results of operations may be adversely affected. In particular, lower interest rates and investment returns could result in the present value of plan liabilities increasing at a greater rate than the value of plan assets, resulting in higher unfunded positions in our pension plans. In addition, the periodic revision of pension assumptions or variances of actual results from our assumptions can materially change the present value of expected future benefits, and therefore the funded status of the plans and resulting net periodic

pension expense. As a result, we may experience future changes in the funded status of our plans that could require us to make additional cash contributions beyond those that have been estimated and which could adversely affect shareholders' equity, net income, cash flow and liquidity.

Our worldwide pension plans are significant, therefore our pension contributions and expense are sensitive to various market and demographic factors. These factors include equity and bond market returns, the assumed interest rates we use to discount our pension liabilities, foreign exchange rates, rates of inflation, mortality assumptions, potential regulatory and legal changes and counterparty exposure from various investments and derivative contracts, including annuities. Variations in any of these factors could cause significant changes to our financial position and results of operations from year to year.

We have debt outstanding that could adversely affect our financial flexibility.

As of December 31, 2016, we had total consolidated debt outstanding of approximately \$6.2 billion. The level of debt outstanding could adversely affect our financial flexibility by reducing our ability to use cash from operations for other purposes, including working capital, dividends to shareholders, share repurchases, acquisitions, capital expenditures and general corporate purposes. We also are subject to risks that, at the time any of our outstanding debt matures, we will not be able to retire or refinance the debt on terms that are acceptable to us, or at all.

As of December 31, 2016, we had two committed credit facilities outstanding. Each of these facilities is intended to support our commercial paper obligations and our general working capital needs. In addition, each of these facilities included customary representations, warranties and covenants, including financial covenants that require us to maintain specified ratios of adjusted consolidated EBITDA to consolidated interest expense and consolidated debt to adjusted consolidated EBITDA, tested quarterly.

A substantial portion of our outstanding debt, including certain intercompany debt obligations, contains financial and other covenants. The terms of these covenants may limit our ability to obtain, or increase the costs of obtaining, additional financing to fund working capital, capital expenditures, acquisitions or general corporate requirements. This in turn may have the impact of reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a