FLASH UPDATE 09/07/2020

Aon and Willis Towers Watson Merger Update

BACKGROUND, UPDATE AND CURRENT VIEWS

Background

In March 2020 Aon announced the proposed acquisition of Willis Towers Watson for $30 billion (£21.5 billion) in an all-stock transaction. The acquisition was approved by the shareholders of both companies in August 2020. The main motivation for the merger is the desire to gain scale in the insurance business.

Update

At the time of the original announcement, it was envisaged that the merger would be completed in the first half of 2021. However, the challenges of regulatory approval have meant that this timeline has not been met and the approval process is dragging on.

In June 2021, the US Department of Justice (DoJ) filed a civil antitrust lawsuit to block the combination of Aon and Willis Towers Watson (WTW). Despite several asset disposals, the DoJ stated that the merger of two of the 'big three' global insurance brokers would create a broking "behemoth", threaten to eliminate competition, raise prices, and reduce innovation for American businesses, employers and unions that rely on these services. Not surprisingly, Aon and WTW disagree with this action. The DoJ antitrust trial start date is currently set for 18 November 2021, with the potential to drag into 2022 unless an earlier settlement can be reached. Negotiations between Aon and WTW and the DoJ are ongoing at the time of this report.

The other key regulator, the European Commission (EC), granted approval of the merger on 9 July. This approval is conditional on full compliance of a substantial set of commitments offered by Aon.

The next significant date is 9 September 2021. If the merger has not been agreed by this "outside date" set in the original merger agreement both firms will need to ask shareholders for an extension to complete the deal. An important point is that, after this date, the shareholders of WTW can break the merger agreement and collect a termination fee of $1 billion from Aon.

Since the DoJ ruling the share price of WTW has reacted negatively and now reflects a reduced expectation that the merger will go through.

IC Select View

The merger has taken much longer to complete than originally thought. Recent events suggest that uncertainty will continue for some time.

The prospect of the merger failing should not be a concern for fiduciary management or investment consulting clients of either firm. We consider that the investment divisions of both firms already have highly competitive propositions based on their significant scale and capability. This ensures the delivery of robust manager research and strong investment advice and decision making for their clients. Whilst the economies of scale from the merger would benefit shareholders, we believe that the gains to clients from any enhanced capabilities of the merged firm, compared to their current services would, at best, be marginal.

As both firms have significant investment capabilities and a large client base it is difficult to predict which firm would prevail following a merger. The approaches of the two investment divisions are sufficiently different that, we believe, any consolidation would lead to a material change in service, at least for the clients of one of the firms. Any changes would be felt most keenly felt by fiduciary management clients as they have a high reliance on the portfolio construction approach of the incumbent manager. This is the point of greatest difference in approach between the firms.

There is no immediate cause for concern, and we continue to recommend clients of both firms maintain a watching brief on developments. IC Select are monitoring the situation carefully and are speaking regularly to both WTW and Aon. We will communicate more details as they become available.

Anne-Marie Gillon
Head of Research