

Now Aon can focus on next CEO

Settlement called imminent in fee investigations

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As soon as Aon Corp. reaches a settlement of state regulatory investigations, the clock will tick louder on another priority: naming a new chief executive.

The hunt for a replacement for longtime CEO Patrick Ryan has been complicated by probes into Aon's business practices by New York Atty. Gen. Eliot Spitzer and other state attorneys general. That obstacle may be removed, as a settlement is imminent, according to people familiar with the matter.

"If you get resolution of the Spitzer issue, then the timing of the CEO project becomes front and center," said Peter Crist, head of Crist Associates, an executive-search boutique in Hinsdale. "The clock's on."

Aon officials have said that its board is making good progress on finding Ryan's successor but gave no timetable on when the search would be completed.

A committee led by longtime director Andrew McKenna is conducting the search with assistance from search firm Spencer Stuart. An Aon spokesman on Tuesday declined to comment further.

While finding a CEO can be a time-consuming assignment, boards more often than not tend to move quickly, because investors and employees don't like uncertainty in leadership.

Yet as Aon's hunt for a new leader enters its sixth month, investors don't seem overly concerned.

"Whether the search takes two months or six months, in the long run it doesn't make any difference," said Eli Rabinowich, a research analyst at New York-based Pzena Investment Management, which held 10.2 million shares of Aon at year's end. "I would rather them take their time to get it right."

Other urgent issues have competed for the attention of the board and investors.

In October, two weeks after Patrick Ryan said he would step down as CEO after 22 years at the helm, Spitzer rocked the insurance industry by accusing Aon rival Marsh & McLennan Cos. of rigging bids for corporate-insurance contracts. The lawsuit intensified regulatory scrutiny of Chicago-based Aon and other insurance brokers, sending shares of the companies tumbling.

The probes of potential collusion between brokers and insurance companies have resulted in a number of reforms. Aon no longer accepts huge fees, known as contingent commissions, from insurers throwing business their way. The company also is looking to shed businesses that could present a conflict of interest in some instances with its brokerage unit.

"Typically when there is a CEO search, it is the No. 1 factor in the company's future," said Adam Klauber, an analyst

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at Chicago-based Cochran, Caronia Securities. "With Aon, instead of being the only issue up there, you've had three or four."

Aon's regulatory troubles would concern potential recruits because candidates usually don't like ambiguity, Crist said. Having a settlement agreement would make the CEO go that much easier.

"A settlement will definitely make things easier for the board," said Mark Esposito, a partner who specializes in global financial services at executive-search firm Christian & Timbers. "Regulatory issues limit you incredibly as far as who will talk to you about this opportunity."

Filling Ryan's shoes won't be easy. The charismatic 67-year-old is larger than life in the halls of Aon's headquarters in the former Amoco building. From modest beginnings, Ryan built Aon into the world's second-largest insurance broker with more than \$10 billion in sales and about 50,000 employees.

Ryan has added to his iconic stature with his equity stake in the Chicago Bears, playing host to President Bush and donating millions to various philanthropic causes.

"It's hard to follow a dynasty," Crist said.

The ideal successor, recruiters said, is someone who has global experience but not necessarily limited to insurance. Since the regulatory walls between banking and insurance came down in 1999, insurance is now part of the broader financial-services world. A sales background would be a plus as the CEO would have to motivate brokers who have lived through a number of restructurings at Aon. And given the current regulatory scrutiny of the industry, the person must have a sterling reputation for ethical conduct, several recruiters said.

The most likely internal candidate is David Bolger, Aon's chief financial officer. At the company about two years, he is credited with bringing better expense discipline to the company. Aon President Michael O'Halleran, who had been seen as Ryan's most likely successor, has taken himself out of the running but said he would continue with the company in a different capacity.

Senior executives outside the company seen as having the credentials that Aon needs include:

- Thomas Wilson, a senior vice president at Allstate Corp. who is considered a rising star in the industry. An Allstate spokesman declined to comment.
- Donald Layton, former vice chairman of J.P. Morgan Chase & Co. who left last summer after the company's merger with Bank One Corp. He could not be reached for comment.
- Doug Elliot, former chief executive of commercial and personal insurance at St. Paul Travelers Cos. He left last month to "pursue other career opportunities." He could not be reached.
- David Zwiener, president and chief operating officer of the worldwide property and casualty operations of Hartford Financial Services Group Inc. A Hartford spokeswoman declined to comment.
- Harry Kraemer Jr., who is considered a wild card. He has been available since his resignation a year ago as CEO of Baxter International Inc. He could not be reached.

The board might be willing to take a chance on someone without prior CEO experience because Ryan plans to remain as chairman after his successor is found. He could lend a guiding hand to the new CEO and help develop relationships with customers.

Corporate governance experts are not big fans of former CEOs who stick around because of their lingering influence inside the company and on the board. But Bill Gates of Microsoft Corp. and Michael Dell of the namesake computer maker have shown that company founders can remain chairmen and coexist with new CEOs.