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Aon Corporation Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Our first question is from the line of Keith Walsh - Citi.

Keith Walsh - Citi

Greg, first on reinsurance, I personally was expecting higher organic revenue there with the pricing chatter that we would be hearing out there in the industry, maybe if you could just touch on, I guess, you mentioned retention in your comment, but a little more color on how retention, and if there is a fee component to your business as well as any accounting issues as far for revenue recognition that would impact the growth into the quarter, and then I've got a followup for Christa.

Gregory C. Case

Great question Keith, happy to go through that for you. First of all if you take a step back and think about just the general renewal season overall, we felt very good about it. As we said the pricing impact on our total business overall in the first quarter was, on the reinsurance side, relatively flat to up low single digits; if you break that down and this relates back to some of the chatter that you've described, the rate online pricing was obviously more aggressive on the property CAT exposed areas in the US than it was in international and the other non-property CAT exposed areas and you clearly see that, but that then gets mitigated by the client decisions around higher retentions and their decisions around purchasing limits, etc., and that behavior is fully reflected on what's going on in the overall economy. So, you start with a kind of a rate online, you then factor it down based on client behavior.

To your question on accounting, that really cuts to the heart of it, really for us in addition. If you think about it, how does this actually get booked, and Christa can describe it in more detail, but a large portion of this is booked on an installment basis, and therefore the timing of the revenue recognition is really an important factor. As an example, roughly about a third of our UK book is often deferred installments from 2008. So it's really going to take a year for all of this to cycle through when you think about the impact of potential one-run renewals. The last point, I would just say is; roughly half for our business acts more or like commission and roughly half acts more or like fee; so you sort of see all those behaviors and activities come through as well in the context of the overall pricing environment. So like I said, it really takes about a year for this to cycle through.

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