
FINAL NOTICE

To: Aon Limited
Of: 8 Devonshire Square
London
EC2M 4PL
Date: 6 January 2009

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the FSA) gives you final notice about a requirement to pay a financial penalty:

1. THE PENALTY

- 1.1. The FSA gave Aon Limited (Aon Ltd) (Aon Corporation's principal UK subsidiary) a Decision Notice on 23 December 2008 which notified Aon Ltd that, pursuant to section 206 of the Financial Services and Markets Act 2000 (the Act), the FSA had decided to impose on it a financial penalty of £5.25 million. This penalty is in respect of Aon Ltd's breach of Principle 3 of the FSA's Principles for Businesses which occurred between 14 January 2005 and 30 September 2007 (the Relevant Period).
- 1.2. Aon Ltd has confirmed that it will not be referring the matter to the Financial Services and Markets Tribunal.
- 1.3. Accordingly, for the reasons set out below and having agreed with Aon Ltd the facts and matters relied on, the FSA imposes a financial penalty on Aon Ltd in the amount of £5.25 million.
- 1.4. Aon Ltd agreed to settle at an early stage of the FSA's investigation. It therefore qualified for a 30% (Stage 1) discount under the FSA's executive settlement procedures. Were it not for this discount, the FSA would have

imposed a financial penalty of £7.5 million on Aon Ltd. The FSA has made clear on a number of occasions that it will seek to impose higher fines in order to achieve its objective of credible deterrence. The level of this penalty reflects that stated objective.

2. REASONS FOR THE ACTION

2.1. During the Relevant Period, Aon Ltd breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. Aon Ltd did not take reasonable care to establish and maintain effective systems and controls for countering the risks of bribery and corruption associated with making payments to non FSA-authorised overseas third parties (Overseas Third Parties) who assisted Aon Ltd in winning business from overseas clients, particularly in high risk jurisdictions. As a result, Aon Ltd made various suspicious payments to a number of Overseas Third Parties amounting to approximately US\$2.5 million and €3.4 million during the Relevant Period.

2.2. Aon Ltd failed properly to assess the risks involved in its dealings with Overseas Third Parties and failed to implement effective controls to mitigate those risks. During the Relevant Period:

(1) Aon Ltd's payment procedures did not require adequate levels of due diligence to be carried out either before relationships with Overseas Third Parties were entered into or before payments were made. Its authorisation process did not take into account the higher levels of risk that certain parts of its business were exposed to in the countries in which they operated.

(2) Aon Ltd failed to monitor its relationships with Overseas Third Parties in respect of specific bribery risks. After a relationship had been approved and set-up for payment, neither the relationship nor the payments were routinely reviewed or monitored. Any failure in the acceptance process in (1) above was therefore allowed to continue without further checking.

(3) Aon Ltd did not provide its staff in business divisions which dealt with Overseas Third Parties with sufficient guidance or training on the bribery and corruption risks involved in such dealings.

(4) Aon Ltd failed to ensure that the committees it appointed to oversee these risks received relevant management information and/or otherwise routinely assessed whether bribery and corruption risks were being managed effectively.

2.3. These failures contributed to a weak control environment surrounding the making of payments to Overseas Third Parties. This gave rise to an unacceptable risk that Aon Ltd could become involved in potentially corrupt

payments to win or retain business. As a result of this weak control environment, a number of payments were made by Aon Ltd to Overseas Third Parties in Bahrain, Bangladesh, Bulgaria, Burma, Indonesia and Vietnam both prior to and during the Relevant Period which, after further investigation, were later identified by Aon Ltd as suspicious and reported to the Serious Organised Crime Agency (SOCA). Aon Ltd failed adequately to question the purpose and nature of these suspicious payments in circumstances where it ought to have been reasonably obvious to Aon Ltd that there was a significant risk that the Overseas Third Party might bribe the insured, the insurer or a public official and/or that there was no genuine commercial purpose to making the payment to the Overseas Third Party.

2.4. The FSA considers these failings to be particularly serious because:

- (1) The involvement of UK financial institutions in corrupt or potentially corrupt practices overseas undermines the integrity of the UK financial services sector. Unless they have in place robust systems and controls which govern the circumstances in which payments may be made to third parties, UK financial services firms risk contravening UK and/or overseas anti-bribery laws. The FSA's financial crime and market confidence statutory objectives are both endangered by UK firms' failures in this regard.
- (2) Aon Ltd is one of the largest insurance and reinsurance brokerage and risk management firms in the UK. As such, it has a leading competitive position in the market and the firm's practices set an example which is seen by other market practitioners and customers.
- (3) The systems and controls failings existed in a number of Aon Ltd's major business units and for a period of years. In particular, the failure to monitor payments to Overseas Third Parties allowed a number of suspicious payments to continue to be made for a number of years. Over the course of the Relevant Period, 66 suspicious payments amounting to approximately US\$2.5 million and €3.4 million were paid to nine Overseas Third Parties. In addition, a number of other suspicious payments to those Overseas Third Parties were made prior to the Relevant Period (before Aon Ltd became regulated by the FSA).
- (4) In failing to have properly assessed the risks involved in its dealings with Overseas Third Parties and to implement effective controls to mitigate those risks, Aon Ltd may have profited from its breach. The commission or brokerage earned by Aon Ltd over the course of the Relevant Period from business that may have been secured or retained as a result of suspicious payments amounted to approximately US\$7.2 million and €1 million.

- (5) The FSA does not consider that Aon Ltd's conduct was either deliberate or reckless. However, Aon Ltd was, or should have been, aware of the risks associated with making payments to Overseas Third Parties to obtain or retain business. Parts of Aon Ltd's business routinely dealt with clients with state or government connections in countries where corruption may be perceived to be commonplace. In 2000, the company now known as Aon Ltd was censured and fined by Lloyd's Disciplinary Board in relation to a number of similar matters that had occurred in Alexander Howden Group Limited and Nicholson Leslie Limited, two predecessor companies of Aon Ltd. However, on becoming regulated by the FSA in 2005, Aon Ltd failed to review either its existing relationships with Overseas Third Parties or its controls surrounding payments to Overseas Third Parties. It did not revisit that decision until June 2007.
- (6) In June 2006, in connection with the departure of former brokers, Aon Ltd became aware of a number of potentially inappropriate payments that may have been made by it in relation to Energy reinsurance business in Indonesia and conducted an internal review of the matter. However no assessment was carried out at the time to determine whether there were weaknesses in Aon Ltd's systems and controls. No assessment of the effectiveness of Aon Ltd's systems and controls was carried out until July 2007 after the Indonesian payments had again been brought to Aon Ltd's attention, this time by the Indonesian authorities, in April 2007. Aon Ltd then treated these payments as suspicious.
- (7) After this and another group of suspicious transactions relating to business in Bahrain had come to Aon Ltd's attention in May 2007, Aon Ltd attempted to review and strengthen its procedures in June and July 2007 in order to prevent further payments of this nature. However, no comprehensive assessment or review of those procedures was made at that time and Aon Ltd subsequently made two further suspicious payments to two Overseas Third Parties.
- (8) Neither the deficiencies in Aon Ltd's procedures nor the suspicious payments were identified by the controls that Aon Ltd had in place at the time.

2.5. Aon Ltd's failings therefore merit the imposition of a significant financial penalty. In deciding the level of disciplinary sanction, the FSA recognises that the following circumstances serve to mitigate the seriousness of Aon Ltd's failings:

- (1) Once the initial two groups of payments relating to Bahrain and Indonesia came to the attention of Aon Ltd's current management and Board, they promptly reported them to SOCA and to the FSA.

- (2) In November 2007, Aon Ltd instructed a leading firm of accountants to review the systems and controls that it had in place for the approval and payment of Overseas Third Parties and to make appropriate recommendations for their improvement. This review was completed in December 2007 and made a number of recommendations, all of which have been implemented or are near implementation. In some cases, Aon Ltd's current enhanced controls exceed those recommendations made by the forensic accountants.
- (3) In particular, Aon Ltd and its parent company, Aon Corporation, have designed and implemented a new global anti-corruption programme that includes a policy limiting the use of third parties. Aon Ltd has also implemented robust risk-based procedures that control and restrict the circumstances in which staff may make payments to Overseas Third Parties, particularly in high risk jurisdictions.
- (4) The new policy (which has been fully implemented by Aon Ltd) generally prohibits the use of third parties whose only service to Aon is to assist in the obtaining and retaining of business solely through client introductions in countries where the risk of corrupt practices is anything other than low. These jurisdictions are defined by reference to an internationally accepted corruption perceptions index. Any use of third parties not prohibited by the policy must be reviewed and approved in accordance with global anti-corruption protocols. To implement this policy, Aon Corporation has established regional working groups globally. At Aon Ltd, the working group, which reviews all existing and proposed third party relationships, is currently chaired by the CFO and is comprised of senior management, business, finance, legal and compliance executives and external legal counsel. In addition, Aon Ltd has implemented an enhanced comprehensive risk-based training regime for its staff. These improvements in Aon Ltd's systems and controls have had, and will continue to have, a significant impact on the way in which Aon Ltd conducts its business overseas.
- (5) In January 2008, Aon Ltd instructed the same firm of accountants to conduct an extensive past payments review (PPR) which covered, in accordance with a robust risk based methodology, all payments made by Aon Ltd to Overseas Third Parties between 1 January 2002 and 31 December 2007. This review identified a further number of payments made by Aon Ltd during this period to Overseas Third Parties which were potentially inappropriate, some of which resulted in further notifications to SOCA.
- (6) Aon Ltd instructed its retained law firms to carry out detailed investigations into the potentially inappropriate payments identified by the PPR.

- (7) Aon Ltd is, where appropriate, taking disciplinary action in relation to staff who are alleged to have been involved in the making of potentially inappropriate payments.

In carrying out these steps, Aon Ltd has to date incurred significant costs both in financial terms (including actual expenditure and opportunity cost) and in management time expended.

- 2.6. Since the discovery of its failings in 2007, Aon Ltd and its current senior management have fully cooperated with the FSA's investigation and have demonstrated to the FSA that they treat this matter with the utmost seriousness. The FSA considers that the pro-active determination of Aon Ltd's current senior management to identify past issues and improve Aon Ltd's systems and controls in this area is a model of best practice for other firms to adopt.

3. RELEVANT STATUTORY AND REGULATORY PROVISIONS

Statutory provisions

- 3.1. Market confidence and the reduction of financial crime are statutory objectives for the FSA under section 2(2) of the Act.
- 3.2. Section 206(1) of the Act provides that:

"If the [FSA] considers that an authorised person has contravened a requirement imposed on him by or under this Act ... it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

FSA Principles

- 3.3. The FSA's Principles for Businesses are general statements of the fundamental obligations of firms under the regulatory system. They derive their authority from the FSA's rule making powers as set out in the Act and reflect the FSA's regulatory objectives.
- 3.4. Principle 3 states that:

"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems."

4. FACTS AND MATTERS RELIED ON

Background

- 4.1. Aon Ltd is a UK company and a wholly-owned subsidiary of the Aon group of companies, the ultimate parent of which is Aon Corporation. Aon Ltd is one of the largest insurance and reinsurance brokers in the London Market. Aon

Ltd has been authorised by the FSA since 14 January 2005 to carry on insurance mediation activities.

- 4.2. Insurance and reinsurance brokers pay third parties in a number of circumstances. For example, a broker may pay co-brokers who assist in the placement of insurance or reinsurance. In other cases, brokers pay consultants who have limited or no involvement in placement activities such as co-broking but who assist with client introductions and providing relevant market and other information.
- 4.3. Some of the business units within Aon Ltd's Aviation and Energy divisions made use of and paid Overseas Third Parties, particularly in connection with reinsurance business carried out by those divisions in overseas jurisdictions. These payments may have been made in order to secure or retain business from clients based in overseas jurisdictions. Some of these clients were state owned entities (either in whole or in part) or otherwise had government connections. Accordingly, although it was not unusual or necessarily inappropriate for Aon Ltd to make payments to Overseas Third Parties, there was a significant risk in some countries that some of the monies involved might be used by Overseas Third Parties to bribe persons connected with the insured, the insurer or public officials, or otherwise be used for potentially inappropriate purposes.
- 4.4. Aon Ltd was, or should have been, aware of this risk. In the 1990s, Alexander Howden Group Limited and Nicholson Leslie Limited, two predecessor companies of Aon Ltd, paid Overseas Third Parties (some of whom were government officials) in Ghana, Nigeria and the Philippines in suspicious circumstances. Aon Ltd was subsequently censured and fined £300,000 by Lloyd's Disciplinary Board in relation to this conduct in 2000. Lloyd's found that the two predecessor companies had failed *"to have adequate systems and procedures in place to prevent the matters ... from occurring or to discover them when they did occur. The procedures for the authorisation of payments were defective, and the checks carried out by those signing the authorisation forms were inadequate."*

Preparation for FSA regulation

- 4.5. Aon Ltd's programme of preparation for FSA regulation in 2003 was managed by a steering committee which reported to the Aon Ltd Board. The steering committee formed a third party working group in order to identify and analyse all third party relationships within the business that could fall within the FSA regime for general insurance. The working group failed properly to assess the potential bribery and corruption risks to Aon Ltd, particularly the higher risks presented by some of the countries in which, for example, the Aviation and Energy divisions operated.

- 4.6. The working group identified that Aon Ltd's dealings with third parties who conducted business in the UK and whose own activities also potentially fell within the scope of FSA regulation (as part of a retail distribution chain) gave rise to specific UK regulatory compliance risks. Accordingly, the working group decided that their focus should be on third parties that conducted activities in the UK. No assessment of the risks presented by Aon Ltd's relationships with Overseas Third Parties was conducted in making this decision and, notwithstanding Aon Ltd's previous experience of the issues in this area, the working group did not review existing relationships with Overseas Third Parties as part of the programme. Moreover, their decision was neither recorded nor escalated for further consideration to the Aon Ltd Board.
- 4.7. The working group established new procedures in relation to third party payments which remained in place throughout the Relevant Period. Although these new procedures covered both UK and Overseas Third Parties, they were primarily designed to ensure that Aon Ltd's dealings with third parties that operated in the UK were compliant with FSA regulatory requirements. For Overseas Third Parties, no material changes were made to existing procedures, which only required limited due diligence on the identity of the Overseas Third Party and any connections that it had with other parties. This happened without any proper assessment being made as to whether the existing procedures were adequate.
- 4.8. Aon Ltd did not until June 2007 revisit its failure to review either its existing relationships with Overseas Third Parties or its controls surrounding payments to Overseas Third Parties.

Aon Corporation's Code of Business Conduct

- 4.9. Throughout the Relevant Period, Aon Corporation had, and continues to have in place, a Code of Business Conduct which applied to its business globally (the Code).
- 4.10. The Code's purpose was to set an ethical tone within the global firm. It contained statements which sought to make it clear to Aon employees that they were not permitted to offer or make "improper payments" such as "bribes or kickbacks" (whether to government officials or private sector customers), as well as excessively generous business courtesies (such as business gifts, meals and entertainment). It also stated that employees should "*Never use a third party to perform any act that you, as an employee, would be prohibited from engaging in directly.*"
- 4.11. The Code was not intended to provide detailed guidance but rather to raise awareness of such matters. As such, it did not provide examples of the specific bribery risks involved, for example, in certain divisions' dealings with Overseas Third Parties.

- 4.12. The Code sought to emphasise the individual accountability of Aon's employees as regards business conduct matters. Aon's staff were required to declare on an annual basis that they had read the Code and that they understood the responsibilities, expectations and standards that it described.
- 4.13. Moreover, the Code placed key responsibility on staff with supervisory responsibilities over any other employee requiring each such manager to: communicate the Code and relevant Aon Corporation policies to their direct reports; encourage employees to ask questions, make suggestions and report wrongdoing; and be vigilant to prevent violations of the Code, Aon's policies or the law.
- 4.14. For its more senior managers, there was a separate annual certification process which required them to confirm amongst other things that:
- (1) no funds or assets of the firm shall be used for any purpose which would be in violation of any applicable law or regulation;
 - (2) no transaction shall be effected and no payment shall be made by or on behalf of the firm with the intention or understanding that the transaction or payment is other than as described in the documentation evidencing the transaction or supporting the payment; and
 - (3) in any dealings with a supplier, customer, government official, etc., no employee shall request, accept, or offer to give any significant thing of value, the purpose or result of which could be to influence the bona fide business relationships between the firm and such persons or entities.
- 4.15. A code of conduct and a self-certification process can play important roles in contributing to a robust control environment. However, they are not of themselves sufficient controls but need to be supplemented by adequate training and written guidance, robust procedures for the authorisation of third party payments and proper monitoring particularly of areas where risks are high. It appears that a number of individuals in the Aviation and Energy divisions of Aon Ltd did not pay sufficient attention to specific bribery risks involved in their dealings with Overseas Third Parties (see paragraphs 4.24 and 4.25 below).

Training and guidance

- 4.16. Prior to July 2007, Aon Ltd failed to give its staff, particularly those within the Aviation and Energy divisions, adequate training or written guidance in respect of specific bribery and corruption risks. Although Aon Ltd staff received training on the Code and were required to declare annually that they had read and understood the Code, they were not provided with focused training on the anti-bribery statements contained in the Code until late 2007.

- 4.17. Following discovery of the matters which led to the disciplinary action by Lloyd's, Aon Ltd trained senior employees, including those within the Aviation and Energy divisions, in August 1998 about the specific risks involved in dealing with third parties as part of the process of securing or retaining business from overseas clients.
- 4.18. In November 1998, senior managers, including those within the Aviation and Energy divisions, were also provided with written guidelines on the circumstances in which Aon Ltd employees may pay an Overseas Third Party for introducing business. The guidelines, which supplemented the Code, emphasised the importance of exercising care before making a payment to an Overseas Third Party in certain circumstances. They also recommended that written commission sharing agreements should be entered into, that a short report be produced and kept on file explaining the reason for any payment and that, if appropriate, business references be taken on the third party payee. Aon Ltd put the onus on senior managers in these divisions to distribute and enforce these guidelines in the divisions they managed.
- 4.19. The extent to which these guidelines were distributed and enforced is however unrecorded. The training in any event was not subsequently given to any other staff (even those who subsequently joined the Aviation and Energy divisions). Whilst all staff that engaged with third parties underwent training "*concerning the potential regulatory obligations of those third parties in the newly regulated environment*" in late 2004 and early 2005 (in preparation for FSA regulation), this training focused on whether some form of FSA authorisation or exemption was required rather than specific anti-bribery issues concerning Overseas Third Parties.
- 4.20. In view of the particular risks involved in dealing with Overseas Third Parties as part of the process of winning or retaining business, Aon Ltd should have ensured that appropriate members of staff – particularly those in the Aviation and Energy divisions – received focused training in relation to this area and were tested on their understanding of the relevant risks involved. Effective training and testing in this regard would have emphasised to staff the importance of carrying out effective due diligence prior to authorising an Overseas Third Party for payment.

Third Party authorisation and payment procedures

- 4.21. All third parties needed to undergo Aon Ltd's authorisation process before they could be approved or paid. The authorisation process in place during the Relevant Period was however deficient as it did not require adequate levels of due diligence to be carried out before a relationship with an Overseas Third Party could be approved. The process did not take into account the higher levels of risk that certain parts of its business were exposed to in the countries in which they operated.

- 4.22. In order to set up a third party account for payment, Aon Ltd staff had to complete a Third Party Agreement form (TPA form). The TPA form required: confirmation as to whether the third party had any connections with, among others, the client, the assured or any government authority; basic good repute and identity checks to be carried out; and a brief description of the nature and percentage basis of the commission sharing agreement to be entered. The TPA form required approval by Aon Ltd divisional management, the accounts division and Compliance (see paragraph 4.30 below).
- 4.23. However, there were insufficient explanatory notes or other written guidance for completing the form. In the absence of any specific training, it may not have been clear to Aon Ltd staff filling out or authorising the TPA form what due diligence checks ought to have been conducted before completing these sections or what connections and details of the agreement needed to be recorded in the limited space provided on the form. Further, the TPA form did not require a business case for the relationship to be set out for Overseas Third Parties.
- 4.24. This lack of guidance is demonstrated by completed forms which did not always sufficiently clarify the services that the Overseas Third Party was providing to Aon Ltd. For example, one completed TPA form relating to business in Indonesia stated that Aon Ltd needed to pay the Overseas Third Party as a consultant as this potentially delivered to Aon Ltd a contract but also blocked a competitor from the market. This statement was not questioned by any of the management signing the TPA form and payments were subsequently made to this Overseas Third Party. Other completed TPA forms did not provide any information regarding the nature of the services the Overseas Third Party was performing for Aon Ltd.
- 4.25. In two cases, Aon Ltd failed to ensure that TPA forms were completed and/or that sufficient due diligence had been carried out before approving these Overseas Third Parties. Despite this, Aon Ltd still authorised these Overseas Third Parties and made payments to them in circumstances where certain indications, not least the country in which it was conducting business and the involvement of state-owned insurance companies, should have alerted Aon Ltd to make additional enquiries of its client or the Overseas Third Party before making the payment:
- (1) One case involved the reinsurance of a Bulgarian insurance company. On the instructions of its client, Aon Ltd entered into a “framework agreement” with an Overseas Third Party in January 2007. The terms of the agreement did not correspond with what Aon Ltd had been told by its client, i.e. that the payments to the Overseas Third Party would be to finance a “loss prevention fund”. Instead, the agreement clearly indicated that the Overseas Third Party would act as a co-broker in placing the reinsurance. Further, the Overseas Third Party was a company incorporated in the British Virgin Islands. An additional

agreement which Aon Ltd signed on 6 July 2007 provided that the payments should be made to a Swiss numbered bank account. Despite these indications, Aon Ltd failed to question the purpose and nature of the payments in circumstances where it ought to have been reasonably obvious that there was a significant risk that there might be no genuine commercial purpose to making the payment to the Overseas Third Party. On 19 July 2007, Aon Ltd paid approximately €1.4 million to the Overseas Third Party.

- (2) The other case related to the reinsurance of an insurance company owned by the Burmese government. Aon Ltd paid large sums to an Overseas Third Party in advance of receiving the business from the insurance company. This was not common practice and it was not clear what services the Overseas Third Party was providing to Aon Ltd in order to receive these payments. There were a number of indications that the Overseas Third Party might have been connected to an individual in the insurance company. The payments were also made to a bank account that was not based in the country where the business was being conducted. Aon Ltd failed to question the purpose and nature of the payments in circumstances where it ought to have been reasonably obvious to Aon Ltd that there was a significant risk either that there may have been a connection between the Overseas Third Party and the insurer and/or that there might be no genuine commercial purpose to making the payment to the Overseas Third Party. During the Relevant Period, Aon Ltd paid approximately US\$571,000 to the Overseas Third party (during the course of their relationship, Aon Ltd paid over US\$3.25 million to the Overseas Third Party).

- 4.26. In both cases, these payments were later treated by Aon Ltd as suspicious and reported to SOCA at the direction of current senior management (see paragraph 6.11(5) below).
- 4.27. Aon Ltd did recognise that there might be an increased risk in making payments to individuals as opposed to companies and put in place a process whereby a payment to an individual required additional authorisation by a member of Finance or Accounts senior management. A payment to a third party company did not require this level of authorisation. No distinction was made in the case of companies that were known to be synonymous with individuals.
- 4.28. Once an Overseas Third Party relationship with a company had been approved, no further checks on the payment or the relationship were required when Aon Ltd subsequently paid that Overseas Third Party. The relationship was not periodically reviewed by Aon Ltd either. As described in paragraphs 4.5 to 4.8 above, Aon Ltd failed to review pre-existing relationships with Overseas Third Parties when it became FSA regulated. It did not revisit that decision until July 2007.

- 4.29. All of Aon Ltd's company expenses, including for example entertainment and marketing expenses, were paid from the accounts payable system by way of invoices. It would be unusual for a payment in relation to an insurance transaction to come from accounts payable. There was however a risk that entertainment/marketing expense payments might be used to benefit third parties without requiring third party authorisation procedures to be followed. Aon Ltd relied on senior managers who approved invoices to exercise their own judgment and ascertain that the invoice was for legitimate business. A number of entertainment/marketing expense payments to Overseas Third Parties were identified by the PPR as potentially inappropriate.

Monitoring

Compliance monitoring

- 4.30. Aon Ltd's compliance team (Compliance) paid insufficient attention to the risks associated with Overseas Third Parties during the Relevant Period.
- 4.31. Compliance played a role in the authorisation of Overseas Third Parties and would review the TPA form. However, Compliance was not required to assess the substance of the business relationship with the Overseas Third Party or question the extent to which due diligence had been carried out. Instead, Compliance was only expected to check that appropriate members of management had signed and authorised the relationship before signing the form itself.
- 4.32. By comparison, Compliance would carry out a more thorough review of the relationship and supporting documentation for third parties that conducted business in the UK. Once these checks had been completed the UK third party was placed on a Compliance approved third party list (Compliance List). The Compliance List acted as a control for the accounts department as no payments could be made to a UK third party during the Relevant Period, including a third party which had been set up on the system before the Relevant Period, unless it was on the Compliance List. No such list existed for Overseas Third Parties that had been authorised prior to the Relevant Period and therefore an Overseas Third Party already set-up on the system could be paid after 14 January 2005 with no further checks.
- 4.33. Further, Compliance was not required to monitor Aon Ltd's relationships with Overseas Third Parties as part of its ongoing monitoring programme. To the extent that Compliance monitoring did review Aon Ltd's third party relationships, it only assessed third parties that conducted business in the UK.

Risk monitoring and management information

- 4.34. Aon Ltd's Board, its Risk & Compliance Committee and its Finance Committee failed to provide sufficient oversight over specific bribery and corruption risks associated with Overseas Third Parties. These risks were not specifically considered at meetings of the Board or these committees from the time Aon Ltd began preparing for FSA regulation until the discovery of the events giving rise to this notice in July 2007. To the extent that quarterly management information provided to the Board and these committees by Aon Ltd's control functions covered third party related issues, it focused on third parties that conducted business in the UK and did not include information that would have enabled Aon Ltd to oversee the management of Overseas Third Party risks within its business (such as the number and amount of payments made and the countries in which the Overseas Third Parties operated).
- 4.35. Given the high risks presented by the Aviation and Energy divisions' dealings with Overseas Third Parties, Aon Ltd should have taken greater care to ensure that these risks were being managed effectively within the business.

Internal audit

- 4.36. Internal Audit conducted risk based reviews based on a six monthly plan. However, during the Relevant Period, Aon Ltd's relationships with Overseas Third Parties did not form part of Internal Audit's routine audits.

Discovery of issues

- 4.37. In June 2006, in connection with the departure of former brokers, Aon Ltd conducted an internal review of potentially inappropriate payments that had been made in relation to business conducted in Indonesia by Aon Ltd's Energy division. The review indicated that, whilst the payments had been made in compliance with Aon Ltd's authorisation procedure, it was hard to tell if any irregularity occurred given the information available.
- 4.38. Following a more detailed investigation, the same payments were later identified by Aon Ltd in July 2007 as suspicious and reported to SOCA at the direction of current senior management (see paragraph 4.42 below).
- 4.39. The fact that potentially inappropriate payments had been made notwithstanding the controls Aon Ltd had in place should have raised concerns and, on that basis, the matter should have been escalated to Aon Ltd's Risk & Compliance and Finance Committees and (if appropriate) the Aon Ltd Board.
- 4.40. The review should have caused Aon Ltd to call into question the adequacy of its third party payment controls with respect to Overseas Third Parties and Aon Ltd should have taken further action. The decision to close the matter in July 2006 without appropriate escalation contributed to Aon Ltd's failure to address the weaknesses in its control environment around Overseas Third Parties for another year.

- 4.41. Neither the deficiencies in Aon Ltd's procedures nor the payments that Aon Ltd subsequently treated as suspicious were identified by the controls that Aon Ltd had in place at the time in July 2006. The matter was initially brought to light following an enquiry of Aon Ltd by an overseas law enforcement agency in April 2007 relating to the Indonesian group of transactions. The review of a separate group of transactions, also prompted by overseas enforcement agencies, then led Aon Ltd in May 2007 to review certain business conducted in Bahrain.
- 4.42. Following those enquiries, and at the instigation of senior management at Aon Ltd and Aon Corp, Aon Ltd carried out internal investigations into those two groups of transactions. It notified the FSA in July 2007 that it had identified two suspicious groups of transactions that appeared to involve potentially inappropriate third party payments in overseas jurisdictions. Aon Ltd also notified SOCA of its suspicions as regards the Indonesia and Bahrain matters.
- 4.43. When it notified the FSA, Aon Ltd advised the FSA that new systems and controls had been put in place to prevent such potentially inappropriate payments being made in the future. This strengthening of controls consisted of stopping payments to Overseas Third Parties until existing relationships with them had been put through the TPA Form set-up process. It became a requirement for all third parties to be included on the Compliance List after being reviewed and no payments could be made to them until this process was complete. New training was subsequently introduced but a full review of Aon Ltd's procedures in relation to Overseas Third Parties was not conducted at this time.
- 4.44. In September 2007, just two months after this new process was put in place, a third case arose in which the new controls had been circumvented. In this case a further suspicious payment was made without adequate due diligence having been conducted. This was, at least in part, because the intended recipient of the funds had not been correctly categorised as a third party. As such, the wrong payment authorisation and compliance procedures were followed. The possibility of a third party being wrongly classified and as a result circumventing the procedures in place for third parties was not addressed when Aon Ltd's controls were strengthened in June and July 2007. Aon Ltd notified the FSA and SOCA of this payment in October 2007.

5. PRINCIPLE BREACHES

- 5.1. By reason of the facts and matters set out above, Aon Ltd breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. In particular:

- (1) Aon Ltd's procedures did not require adequate levels of due diligence to be carried out either before relationships with Overseas Third Parties were entered into or before payments were made.

- (2) Aon Ltd failed to monitor its relationships with Overseas Third Parties in respect of specific bribery risks.
- (3) Aon Ltd did not provide its staff in business divisions which dealt with Overseas Third Parties with sufficient guidance or training on the bribery and corruption risks involved in such dealings.
- (4) Aon Ltd failed to ensure that the committees it appointed to oversee these risks received relevant management information and/or otherwise routinely assessed whether bribery and corruption risks were being managed effectively.

6. FACTORS RELEVANT TO DETERMINING THE ACTION

Relevant guidance on sanction

- 6.1. The FSA has considered the disciplinary and other options available to it and has concluded that a financial penalty is the appropriate sanction in the circumstances of this particular case. The principal purpose of a financial penalty is to promote high standards of regulatory conduct. It seeks to do this by deterring firms who have breached regulatory requirements from committing further contraventions, helping to deter other firms from committing contraventions and demonstrating generally to firms the benefit of compliant behaviour.
- 6.2. In determining the financial penalty proposed, the FSA has had regard to guidance contained in the Decisions Procedure and Penalties manual (DEPP) which came into force as part of the FSA's Handbook of Rules and Guidance (the FSA Handbook) on 28 August 2007. The FSA has also had regard to guidance contained in the Enforcement Manual (ENF) which formed part of the FSA Handbook during the Relevant Period.
- 6.3. DEPP 6.5 sets out some of the factors that may be of particular relevance in determining the appropriate level of a financial penalty. Chapter 13 of ENF contains the equivalent guidance that was in effect during the Relevant Period. DEPP 6.5.1 G and ENF 13.3.4 G both state that the criteria listed in DEPP 6.5 and ENF 13.3 respectively are not exhaustive and all relevant circumstances of the case will be taken into consideration. In determining whether a financial penalty is appropriate and the amount, the FSA is required therefore to consider all the relevant circumstances of the case.

Deterrence

- 6.4. The involvement of UK financial institutions in corrupt or potentially corrupt practices overseas undermines the integrity of the UK financial services sector. Unless they have in place robust systems and controls which govern the circumstances in which payments may be made to third parties, UK financial services firms that conduct business internationally risk contravening UK

and/or overseas anti-bribery laws. The FSA's financial crime and market confidence statutory objectives are both endangered by UK firms' failures in this regard.

- 6.5. The FSA considers that the financial penalty imposed will promote high standards of regulatory conduct within Aon Ltd and deter it from committing further breaches. The FSA also considers that the financial penalty will help deter other firms from committing similar breaches as well as demonstrating generally the benefits of a compliant business.

The nature, seriousness and impact of the breach in question

- 6.6. The FSA has had regard to the seriousness of the breaches, including the nature of the requirements breached, the number and duration of the breaches and whether the breaches revealed serious or systemic weakness of the management systems or internal controls. The FSA considers that Aon Ltd's breaches are of a particularly serious nature (see paragraph 2.4 above). The systems and controls failings existed in a number of Aon Ltd's major business units and for a period of nearly three years. In particular, the failure to monitor payments to Overseas Third Parties allowed various payments to continue to be made during the Relevant Period which, after further investigation, were later identified by Aon Ltd as suspicious and reported to SOCA.
- 6.7. The FSA has also had regard to the value of the suspicious payments made to Overseas Third Parties which have been identified by Aon Ltd. Over the course of the Relevant Period, 66 suspicious payments amounting to approximately US\$2.5 million and €3.4 million were paid to nine Overseas Third Parties. In addition, a number of other suspicious payments were made to those Overseas Third Parties prior to the Relevant Period (before Aon Ltd became regulated by the FSA).

The extent to which the breach was deliberate or reckless

- 6.8. The FSA does not consider that the misconduct on the part of Aon Ltd was deliberate or reckless. However, the FSA considers it particularly serious that, throughout the Relevant Period, Aon Ltd was, or should have been, aware of the risks associated with making payments to Overseas Third Parties to obtain or retain business including the risk of contravening applicable anti-bribery laws and/or financial crime related regulatory requirements. Its Aviation and Energy divisions (particularly in connection with reinsurance business carried out by those divisions in overseas jurisdictions) routinely dealt with clients with state or government connections in countries where corruption may be perceived to be common place. The firm had also been subject to disciplinary action by Lloyd's of London in relation to these matters, as a result of the conduct of two of its predecessor companies.

The size, financial resources and other circumstances of the firm

- 6.9. The FSA has taken into account Aon Ltd's size and financial resources. Aon Ltd is one of the leading insurance and reinsurance brokers in the London Market. In the year ending 31 December 2007, its income from regulated activity was £595 million.

The amount of benefit gained or loss avoided

- 6.10. In failing to have properly assessed the risks involved in its dealings with Overseas Third Parties and to implement effective controls to mitigate the risks of making suspicious payments to Overseas Third Parties, Aon Ltd may have profited from its breach. The FSA has taken into account the commission or brokerage earned by Aon Ltd over the course of the Relevant Period from business that was secured or retained as a result of suspicious payments (approximately US\$7.2 million and €1 million).

Conduct following the breach

- 6.11. The FSA recognises that the following steps carried out by the current senior management of Aon Ltd serve to mitigate the seriousness of the firm's failings:
- (1) Once the initial two groups of payments relating to Bahrain and Indonesia came to the attention of Aon Ltd's current management and Board, they promptly reported them to SOCA and to the FSA.
 - (2) After the third case had been identified, which was also the subject of a report to SOCA, Aon Ltd established a dedicated steering committee which reported directly to its Board with overall responsibility for reviewing both past payments and the systems and controls relating to third party payments.
 - (3) In November 2007, Aon Ltd instructed a leading firm of accountants, including a team under the supervision of its Global Head of Investigations, to review the systems and controls that it had in place for the approval and payment of Overseas Third Parties and to make appropriate recommendations for their improvement. This review was completed in December 2007 and made short, medium and long term recommendations all of which Aon Ltd has implemented, or is near to implementing. In some cases, Aon Ltd's enhanced controls exceed those recommendations made by the forensic accountants.
 - (4) In January 2008, Aon Ltd instructed the same firm of accountants to conduct an extensive PPR in order to enable it to satisfy itself and demonstrate to the FSA that it could identify such potentially inappropriate payments as may have been made by Aon Ltd to third parties within the Relevant Period and to respond appropriately to such

payments as were identified. The review covered, in accordance with a robust risk based methodology, all payments made by Aon Ltd to Overseas Third Parties between 1 January 2002 and 31 December 2007. The PPR identified a further 40 payments made by Aon Ltd to Overseas Third Parties during this period which were potentially inappropriate: 16 payments from Aon Ltd's insurance technical ledger and 24 payments from the accounts payable system.

- (5) Following the conclusion of the PPR, Aon Ltd instructed its retained law firms to carry out detailed investigations into the potentially inappropriate payments identified by the PPR. Three groups of suspicious payments were identified and were promptly notified to SOCA and the FSA.
- (6) Where appropriate, Aon Ltd has taken and is taking responsive action, including termination and other disciplinary action in relation to staff that are alleged to have been involved in the making of potentially inappropriate payments.

6.12. The new and enhanced systems and controls in relation to anti-bribery and corruption include the following:

Global Anti-Corruption Policy and Associated Documentation

- (1) Aon Ltd and Aon Corporation have designed and implemented a global anti-corruption policy, including introducing specific content into the Code of Business Conduct dealing with anti-corruption and financial crime, a policy on limiting the use of third parties and specific third party anti-corruption policies and protocols. In particular Aon Corporation's new policy limiting the use of third parties (which has been fully implemented by Aon Ltd) generally prohibits the use of third parties whose only service to Aon is assisting it in the obtaining and retaining of business solely through client introductions in countries where the risk of corrupt practices is anything other than low. These jurisdictions are defined by reference to an internationally accepted corruption perceptions index. Any use of third parties not prohibited by the policy must be reviewed and approved in accordance with global anti-corruption protocols.

Third Party Processes and Payment Controls

- (2) Aon Ltd and Aon Corporation have implemented robust risk-based procedures to review all existing and proposed third party relationships. To implement these procedures, Aon Corporation has established regional working groups globally. At Aon Ltd, the working group, which reviews all existing and proposed third party relationships, is currently chaired by the CFO and is comprised of senior management,

business, finance, legal and compliance executives and external advisors. In addition, Aon Ltd has implemented robust risk-based procedures which control and restrict the circumstances in which staff may make payments to Overseas Third Parties, particularly in high risk jurisdictions.

Accountability

- (3) In establishing the new processes and controls around the establishment of a new third party relationship and the making of payments to third parties, Aon Ltd and Aon Corporation have sought to ensure that there is clear personal accountability and responsibility.

Enhanced Training

- (4) Aon Ltd has implemented an enhanced, risk-based training regime for its staff. These enhancements include instructing an external law firm to provide in-depth, in-person training to Aon Ltd employees who may regularly deal with third parties. Aon Ltd and Aon Corporation are also developing customised, on-line training for all staff, including 'examples based' scenarios that reflect issues identified as a result of its investigative efforts.

Behavioural Changes

- (5) In order to ensure that the significant changes that are being introduced are embedded within the culture of the organisation both within the UK and globally, Aon Ltd and Aon Corporation have made it clear internally that anti-corruption compliance is a top-down management-led initiative. Leadership at Aon Ltd has ensured that the adoption of the values set out in the Code of Business Conduct and other policies will be subject to regular evaluation through the performance management system. In addition, variable compensation will be driven by a mixture of financial and non-financial metrics and disciplinary action will be taken for compliance breaches.
- 6.13. In carrying out these steps, Aon Ltd has to date incurred significant costs, both in financial terms (including actual expenditure and opportunity cost) and in management time expended. These improvements in Aon Ltd's systems and controls have had, and will continue to have, a significant impact on the way in which Aon Ltd conducts its business overseas.
 - 6.14. Since the discovery of its failings in 2007, Aon Ltd and its current senior management have fully cooperated with the FSA's investigations and have demonstrated to the FSA that they treat this matter with the utmost seriousness. The FSA considers that the pro-active determination of Aon

Ltd's current senior management to identify past issues and improve Aon Ltd's systems and controls in this area is a model of best practice for other firms to adopt.

Other action taken by the FSA (or a previous regulator)

- 6.15. Aon Ltd was censured and fined a total of £300,000 by the Lloyd's Disciplinary Board in December 2000 in relation to payments that two of its predecessor firms had made in suspicious circumstances to Overseas Third Parties (see paragraph 4.4 above).

7. DECISION MAKER

- 7.1. The decision which gave rise to the obligation to give this Final Notice was made by the Settlement Decision Makers on behalf of the FSA.

8. IMPORTANT

- 8.1. This Final Notice is given to Aon Ltd in accordance with section 390 of the Act.

Manner of and time for payment

- 8.2. The financial penalty must be paid in full by Aon Ltd to the FSA by no later than 20 January 2009, 14 days from the date of the Final Notice.

If the financial penalty is not paid

- 8.3. If all or any of the financial penalty is outstanding on 21 January 2009, the FSA may recover the outstanding amount as a debt owed by Aon Ltd and due to the FSA.

Publicity

- 8.4. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to Aon Ltd or prejudicial to the interests of consumers.
- 8.5. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

- 8.6. For more information concerning this matter generally, Aon Ltd should contact Mark Lewis at the FSA (direct line: 020 7066 4244 / fax: 020 7066 4245) of the Enforcement Division of the FSA.

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William Amos
Head of Department
FSA Enforcement Division

EXPLANATORY NOTE TO THE FINAL NOTICE
FOR AON LIMITED DATED 6 JANUARY 2009

The Final Notice contains a reference to a number of payments being made by Aon Ltd to Overseas Third Parties in Bahrain and payments relating to business in Bahrain.

Whilst certain payments were made through Aon's Bahraini business (Aon Re Middle East WLL) during the Relevant Period, the Final Notice relates solely to failures of risk management systems and controls by Aon Ltd in the UK and not by any Aon group company or entity in Bahrain. Further, the FSA's investigation did not identify any payments made to Bahraini individuals or Bahraini companies. The statements in the Final Notice should therefore be read in accordance with this clarification.

27 February 2009