MARSH & MCLENNAN COMPANIES, INC.
Form 10-Q
July 27, 2018

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, New York 10036
(212) 345-5000

Commission file number 1-5998
State of Incorporation: Delaware
I.R.S. Employer Identification No. 36-2668272

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨(Do not check if a smaller reporting company)	Smaller Reporting Company ¨
	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 24, 2018, there were outstanding 504,979,546 shares of common stock, par value $1.00 per share, of the registrant.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "forecast," "intend," "plan," "project" and similar terms, and future or conditional tense verbs like "could," "may," "might," "should," "will" and "would."

Forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. Factors that could materially affect our future results include, among other things:

- the impact of any investigations, reviews, market studies or other activity by regulatory or law enforcement authorities, including the ongoing investigations by the European Commission, the Australian Royal Commission and the U.K. FCA;
- the impact from lawsuits, other contingent liabilities and loss contingencies arising from errors and omissions, breach of fiduciary duty or other claims against us;
- our organization's ability to maintain adequate safeguards to protect the security of our information systems and confidential, personal or proprietary information, particularly given the large volume of our vendor network and the need to patch software vulnerabilities;
- our ability to compete effectively and adapt to changes in the competitive environment, including to respond to disintermediation, digital disruption and other types of innovation;
- the financial and operational impact of complying with laws and regulations where we operate, including cybersecurity and data privacy regulations such as the E.U.’s General Data Protection Regulation, anti-corruption laws and trade sanctions regimes;
- the regulatory, contractual and reputational risks that arise based on insurance placement activities and various broker revenue streams;
- the extent to which we manage risks associated with the various services, including fiduciary and investments and other advisory services;
- our ability to successfully recover if we experience a business continuity problem due to cyberattack, natural disaster or otherwise;
- the impact of changes in tax laws, guidance and interpretations, including related to certain provisions of the U.S. Tax Cuts and Jobs Act, or disagreements with tax authorities;
- the impact of fluctuations in foreign exchange and interest rates on our results;
- the impact of macroeconomic, political, regulatory or market conditions on us, our clients and the industries in which we operate; and
- the impact of changes in accounting rules or in our accounting estimates or assumptions, including the impact of the adoption of the new revenue recognition, pension and lease accounting standards.

The factors identified above are not exhaustive. We caution readers not to place undue reliance on any forward-looking statements, which are based only on information currently available to us and speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made.

Further information concerning Marsh & McLennan Companies and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" section and in the "Management’s Discussion and Analysis of Financial Condition and Results of Operations" section of our most recently filed Annual Report on Form 10-K.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue	$3,734	$3,495	$7,734	$6,998
Expense:				
Compensation and benefits	2,135	1,998	4,359	4,003
Other operating expenses	908	796	1,776	1,545
Operating expenses	3,043	2,794	6,135	5,548
Operating income	691	701	1,599	1,450
Other net benefit credits	65	63	131	123
Interest income	3	2	6	4
Interest expense	(68)	(60)	(129)	(118)
Investment income	28	5	28	5
Income before income taxes	719	711	1,635	1,464
Income tax expense	183	204	403	379
Net income before non-controlling interests	536	507	1,232	1,085
Less: Net income attributable to non-controlling interests	5	6	11	15
Net income attributable to the Company	$531	$501	$1,221	$1,070
Net income Per Share Attributable to the Company:				
Basic	$1.05	$0.98	$2.41	$2.08
Diluted	$1.04	$0.96	$2.38	$2.05
Average number of shares outstanding:				
Basic	507	514	507	514
Diluted	512	520	513	521
Shares outstanding at June 30,	505	513	505	513

The accompanying notes are an integral part of these unaudited consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2018	2017	2018	2017
Net income before non-controlling interests	$536	$507	$1,232	$1,085
Other comprehensive (loss) income, before tax:				
Foreign currency translation adjustments	(529)	290	(301)	525
Unrealized investment gains	—	24	—	19
Gain (loss) related to pension/post-retirement plans	192	(5)	108	28
Other comprehensive (loss) income, before tax	(337)	309	(193)	572
Income tax expense on other comprehensive income	23	13	15	20
Other comprehensive (loss) income, net of tax	(360)	296	(208)	552
Comprehensive income	176	803	1,024	1,637
Less: comprehensive income attributable to non-controlling interest	5	6	11	15
Comprehensive income attributable to the Company	$171	$797	$1,013	$1,622

The accompanying notes are an integral part of these unaudited consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	(Unaudited) June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,036	$ 1,205
Receivables		
Commissions and fees	4,288	3,777
Advanced premiums and claims	62	65
Other	367	401
	4,717	4,243
Less-allowance for doubtful accounts and cancellations	(116)	(110)
Net receivables	4,601	4,133
Other current assets	538	224
Total current assets	6,175	5,562
Goodwill	9,177	9,089
Other intangible assets	1,234	1,274
Fixed assets		
(net of accumulated depreciation and amortization of $1,857 at June 30, 2018 and $1,826 at December 31, 2017)	698	712
Pension related assets	1,808	1,693
Deferred tax assets	532	669
Other assets	1,535	1,430
	$ 21,159	$ 20,429

The accompanying notes are an integral part of these unaudited consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

(In millions, except share amounts)	(Unaudited) June 30, 2018	December 31, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 439	$ 262
Accounts payable and accrued liabilities	2,246	2,083
Accrued compensation and employee benefits	1,103	1,718
Accrued income taxes	216	199
Dividends payable	212	—
Total current liabilities	4,216	4,262
Fiduciary liabilities	5,118	4,847
Less – cash and investments held in a fiduciary capacity	(5,118)	(4,847)
	—	—
Long-term debt	5,813	5,225
Pension, post-retirement and post-employment benefits	1,768	1,888
Liabilities for errors and omissions	303	301
Other liabilities	1,262	1,311
Commitments and contingencies	—	—
Equity:		
Preferred stock, $1 par value, authorized 6,000,000 shares, none issued	—	—
Common stock, $1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares at June 30, 2018 and December 31, 2017	561	561
Additional paid-in capital	732	784
Retained earnings	14,131	13,140
Accumulated other comprehensive loss	(4,265)	(4,043)
Non-controlling interests	81	83
	11,240	10,525
Less – treasury shares, at cost, 55,507,129 shares at June 30, 2018 and 51,930,135 shares at December 31, 2017	(3,443)	(3,083)
Total equity	7,797	7,442
	$ 21,159	$ 20,429

The accompanying notes are an integral part of these unaudited consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30,

(In millions)	2018	2017
Operating cash flows:		
Net income before non-controlling interests	$1,232	$1,085
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization of fixed assets and capitalized software	159	156
Amortization of intangible assets	88	80
Adjustments and payments related to contingent consideration liability	2	(13)
Provision for deferred income taxes	34	42
(Gain) loss on investments	(28)	(5)
(Gain) loss on disposition of assets	(1)	9
Share-based compensation expense	99	75
Changes in assets and liabilities:		
Net receivables	(388)	(318)
Other current assets	4	(18)
Other assets	(10)	(34)
Accounts payable and accrued liabilities	30	52
Accrued compensation and employee benefits	(614)	(579)
Accrued income taxes	18	45
Contributions to pension and other benefit plans in excess of current year expense/credit	(178)	(214)
Other liabilities	(10)	9
Effect of exchange rate changes	(24)	(29)
Net cash provided by operations	413	343
Financing cash flows:		
Purchase of treasury shares	(500)	(400)
Net increase in commercial paper	175	100
Proceeds from issuance of debt	592	987
Repayments of debt	(6)	(256)
Shares withheld for taxes on vested units – treasury shares	(62)	(48)
Issuance of common stock from treasury shares	48	94
Payments of deferred and contingent consideration for acquisitions	(85)	(97)
Distributions of non-controlling interests	(11)	(13)
Dividends paid	(383)	(351)
Net cash (used for) provided by financing activities	(232)	16
Investing cash flows:		
Capital expenditures	(135)	(144)
Net (purchases) sales of long-term investments	(3)	12
Proceeds from sales of fixed assets	1	4
Dispositions	4	—
Acquisitions	(144)	(412)
Other, net	(2)	2
Net cash used for investing activities	(279)	(538)
Effect of exchange rate changes on cash and cash equivalents	(71)	119
Decrease in cash and cash equivalents	(169)	(60)
Cash and cash equivalents at beginning of period	1,205	1,026
Cash and cash equivalents at end of period	$1,036	$966

The accompanying notes are an integral part of these unaudited consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

For the Six Months Ended June 30, (In millions, except per share amounts)	2018	2017
COMMON STOCK		
Balance, beginning and end of period	$561	$561
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$784	$842
Change in accrued stock compensation costs	(26)	(10)
Issuance of shares under stock compensation plans and employee stock purchase plans	(26)	(69)
Balance, end of period	$732	$763
RETAINED EARNINGS		
Balance, beginning of year	$13,140	$12,388
Cumulative effect of adoption of the revenue recognition standard (See Note 17)	364	—
Cumulative effect of adoption of other accounting standards (See Note 17)	—	—
Net income attributable to the Company	1,221	1,070
Dividend equivalents declared – (per share amounts: $1.165 in 2018 and $1.06 in 2017)	(3)	(2)
Dividends declared – (per share amounts: $1.165 in 2018 and $1.06 in 2017)	(591)	(541)
Balance, end of period	$14,131	$12,915
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	$(4,043)	$(5,093)
Cumulative effect of adoption of the financial instruments standard (See Note 17)	(14)	—
Other comprehensive income, net of tax	(208)	552
Balance, end of period	$(4,265)	$(4,541)
TREASURY SHARES		
Balance, beginning of year	$(3,083)	$(2,506)
Issuance of shares under stock compensation plans and employee stock purchase plans	140	201
Purchase of treasury shares	(500)	(400)
Balance, end of period	$(3,443)	$(2,705)
NON-CONTROLLING INTERESTS		
Balance, beginning of year	$83	$80
Net income attributable to non-controlling interests	11	15
Distributions and other changes	(13)	(14)
Balance, end of period	$81	$81
TOTAL EQUITY	$7,797	$7,074

The accompanying notes are an integral part of these unaudited consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations

Marsh & McLennan Companies, Inc. and its consolidated subsidiaries (the "Company"), a global professional services firm, is organized based on the different services that it offers. Under this structure, the Company's two segments are Risk and Insurance Services and Consulting.

The Risk and Insurance Services segment provides risk management solutions, services, advice and insurance broking, reinsurance broking and insurance program management services for businesses, public entities, insurance companies, associations, professional services organizations and private clients. The Company conducts business in this segment through Marsh and Guy Carpenter.

The Company conducts business in its Consulting segment through Mercer and Oliver Wyman Group. Mercer provides consulting expertise, advice, services and solutions in the areas of health, wealth and career. As of June 30, 2018, Mercer had assets under delegated management of approximately $240 billion worldwide. Oliver Wyman Group provides specialized management and economic and brand consulting services.

Acquisitions impacting the Risk and Insurance Services and Consulting segments are discussed in Note 8 to the consolidated financial statements.

2. Principles of Consolidation and Other Matters

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. While certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations for interim filings, the Company believes that the information and disclosures presented are adequate to make such information and disclosures not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").

The financial information contained herein reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the Company's consolidated financial statements as of and for the three and six month periods ended June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of certificates of deposit and time deposits, with original maturities of three months or less, and money market funds. The estimated fair value of the Company's cash and cash equivalents approximates their carrying value. The Company is required to maintain operating funds of approximately $189 million, primarily related to regulatory requirements outside the United States or as collateral under captive insurance arrangements.

Investments

The caption "Investment income" in the consolidated statements of income comprises realized and unrealized gains and losses from investments recognized in earnings. It includes, when applicable, other than temporary declines in the value of debt securities, mark-to-market increases or decreases in equity investments with readily determinable fair values and equity method gains or losses on the Company's investments in private equity funds.

The Company holds certain equity investments, that under legacy Generally Accepted Accounting Principles, were previously accounted as available for sale securities, whereby the mark-to-market change was recorded to other comprehensive income in its consolidated balance sheet. As discussed in Note 17, effective January 1, 2018, the Company adopted new accounting guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The Company recorded a cumulative-effect adjustment that increased retained earnings as of the beginning of the period of adoption of $14 million, reflecting the reclassification of cumulative unrealized gains, net of tax as of December 31, 2017 from accumulated other comprehensive income to retained earnings. Prior periods have not been restated.

The Company holds investments in certain private equity funds that are accounted for under the equity method of accounting using a consistently applied three-month lag period adjusted for any known significant changes from the lag period to the reporting date of the Company. The underlying private equity funds follow investment company accounting, where investments within the fund are carried at fair value. Investment gains or losses for the Company's proportionate share of the change in fair value of the funds are recorded in earnings. Investments accounted for using the equity method of accounting are included in "other assets" in the consolidated balance sheets.

The Company recorded net investment gains of $28 million for both the three and six month periods ended June 30, 2018 and gains of $5 million for both the three and six month periods ended June 30, 2017. The three months ended June 30, 2018 includes gains of $26 million related to mark-to-market changes in securities with readily determinable market values and gains of $2 million related to investments in private equity funds. The six months ended June 30, 2018 includes gains of $19 million related to mark-to-market changes in securities with readily determinable market values and gains of $9 million related to investments in private equity funds. The prior period gains are related to the Company's investments in private equity funds.

Income Taxes

The Company's effective tax rate in the second quarter of 2018 was 25.6% compared with 28.6% in the second quarter of 2017. The effective tax rates for the first six months of 2018 and 2017 were 24.7% and 25.9%. The rate in the first half of 2018 reflects ongoing impacts of the Tax Cuts and Jobs Act (the "TCJA"), primarily the reduced 21% U.S. statutory rate and certain tax planning benefits, largely offset by higher estimated costs from the new territorial system, greater disallowance of compensation and entertainment deductions and a decrease in excess tax benefits related to share-based compensation. The tax rates in 2017 reflect foreign operations taxed at rates below the 35% U.S. statutory tax rate, including the effect of repatriation. The tax rates in both periods reflect the impact of discrete tax matters, tax legislation and nontaxable adjustments to contingent acquisition consideration.

As a result of TCJA, two discrete provisional charges were recorded in the fourth quarter of 2017. The transition to the new territorial tax system resulted in a transition tax payable over eight years on undistributed earnings of non-U.S. subsidiaries. This mandatory taxation of accumulated foreign earnings substantially changed the economic considerations of continued permanent investment of those accumulated earnings, a key component of the Company's global capital strategy. As a result of the transition tax, the Company anticipates repatriating the majority of the accumulated earnings that it previously intended to permanently invest. A charge of $240 million was recorded in the fourth quarter of 2017 as a provisional estimate of the transition tax and ancillary effects.

The provisional estimate of transition tax includes state taxes and foreign withholding taxes related to the change in the Company's indefinite reinvestment assertion with respect to its pre-2018 foreign earnings. The Company previously considered most unremitted earnings of its non-U.S. subsidiaries, except amounts repatriated in the year earned, to be permanently reinvested and, accordingly, recorded no deferred U.S. income taxes on such earnings. The Company has initially analyzed its global capital requirements and potential tax liabilities attributable to repatriation. The Company estimates that it will repatriate $3.4 billion that was previously considered indefinitely invested. Included in the $240 million charge in 2017 is a $53 million provisional estimate for withholding and state income taxes.

In addition, reducing the U.S. corporate tax rate from 35% to 21% and the change in deductibility of certain compensation awards to certain executive officers of the Company effective on January 1, 2018, resulted in a net charge of $220 million in the fourth quarter of 2017 to reduce the value of our U.S. deferred tax assets and liabilities. Adjustments during the first half of 2018 to provisional estimates of transition taxes and U.S. deferred tax assets and liabilities increased income tax expense by $3 million. These estimates may be further adjusted during 2018 when the Company has finalized its analysis of all the relevant information.

In December of 2017, the SEC issued Staff Accounting Bulletin 118 ("SAB 118"), establishing a one-year measurement period to complete the accounting for the income tax effects of the TCJA. SAB 118 anticipates three alternative states of completion at the end of the reporting period of accounting for these effects: (1) the tax accounting work has been completed with respect to an item; (2) a provisional amount has been recognized because a reasonable estimate was possible, or (3) a reasonable estimate cannot be provided. The Company believes its analysis of the TCJA to date provides an appropriate basis to record a provisional estimate. Our provisional estimates include the effects of the deemed repatriation tax and the Company's position with respect to permanently reinvested earnings, the impact of the Global Intangible Low Taxed Income ("GILTI") provision and the remeasurement of U.S. deferred tax based on estimated enactment-date deferred tax balances, which may be adjusted in 2018 when the 2017 tax return is filed. TCJA's transition tax requires detailed calculations of current and accumulated taxable earnings at the level of each foreign subsidiary, computed in functional currency at the greater of two alternative measurement dates and converted into U.S. dollars. In preparing its 2017 U.S. federal return the Company is performing these calculations for approximately seven hundred foreign subsidiaries. In the third quarter management expects to update its estimate of the transition tax, its global permanent investment strategy, and the impact on U.S. deferred tax assets from the change in tax rate. However, given the significant complexity of the

TCJA and still-anticipated guidance from the U.S. Treasury about its implementation, these estimates may be further adjusted during the fourth quarter.

The Company is routinely examined by tax authorities in the jurisdictions in which it has significant operations. The Company regularly considers the likelihood of assessments in each of the taxing jurisdictions resulting from examinations. When evaluating the potential imposition of penalties, the Company considers a number of relevant factors under penalty statutes, including appropriate disclosure of the tax return position, the existence of legal authority supporting the Company's position and reliance on the opinion of professional tax advisors.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in tax returns. The Company's gross unrecognized tax benefits increased from $71 million at December 31, 2017 to $72 million at June 30, 2018 due to current accruals partially offset by settlements of audits and expirations of statutes of limitation. It is reasonably possible that the total amount of unrecognized tax benefits will decrease between zero and approximately $8 million within the next twelve months due to settlements of audits and expirations of statutes of limitation.

3. Revenue

2018 - Under the New Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, the entity applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

The Company adopted the new guidance effective January 1, 2018, using the modified retrospective method, which applies the new guidance beginning in the year of adoption, with the cumulative effect of initially applying the guidance recognized as an adjustment to retained earnings at January 1, 2018. The Company elected to apply the modified retrospective method to all contracts. The comparative financial information included herein has not been restated and continues to be reported under the legacy accounting standards that were in effect for those periods.

In the first quarter of 2018, the Company recorded an increase to the opening balance of retained earnings of $364 million to reflect the cumulative effect of adopting this revenue standard. Other revenue included in the consolidated statements of income that is not from contracts with customers is less than one-quarter of one percent of total revenue, and therefore is not presented as a separate line item.

As discussed in more detail below, the adoption of this new revenue standard will shift income among quarters from historical patterns, but is not expected to have a significant year-over-year impact on annual revenue.

Risk and Insurance Services

Risk and Insurance Services revenue reflects compensation for brokerage and consulting services through commissions and fees. Commission rates and fees vary in amount and can depend upon a number of factors, including the type of insurance or reinsurance coverage provided, the particular insurer or reinsurer selected, and the capacity in which the broker acts and negotiates with clients. For the majority of the insurance and reinsurance brokerage arrangements, advice and services provided which culminate in the placement of an effective policy are considered a single performance obligation. Arrangements with clients may include the placement of a single policy, multiple policies or a combination of policy placements and other services. Consideration related to such "bundled arrangements" is allocated to the individual performance obligations based on their relative fair value. Revenue for policy placement is generally recognized on the policy effective date, at which point control over the services provided by the Company has transferred to the client and the client has accepted the services. The contractual terms for certain fee based brokerage arrangements meet the criteria for revenue recognition over time. For such arrangements, revenue is recognized using output measures, which correspond to the progress toward completing the performance obligation. Fees for non-risk transfer services provided to clients are recognized over time in the period the services are provided, using a proportional performance model, primarily based on input measures. These measures of progress provide a faithful depiction of the progress towards completion of the performance obligation.

Revenue related to reinsurance brokerage for excess of loss ("XOL") treaties is estimated based on contractually specified minimum or deposit premiums, and adjusted as additional evidence of the ultimate amount of brokerage is received. Revenue for quota share treaties is estimated based on indications of estimated premium income provided by the ceding insurer. The estimated brokerage revenue recognized for quota share treaties is constrained to an amount that is probable to not have a significant negative adjustment. The estimated revenue and the constraint are evaluated as additional evidence of the ultimate amount of underlying risks to be covered is received over the 12 to 18 months following the effective date of the placement.

In addition to commissions and fees from its clients, the Company also receives other compensation from insurance companies. This other insurer compensation includes, among other things, payments for consulting and analytics services provided to insurers, fees for administrative and other services provided to or on behalf of insurers (including services relating to the administration and management of quota shares, panels and other facilities in which insurers participate). The Company is also eligible for certain contingent commissions from insurers based on the attainment of specified metrics (i.e., volume and loss ratio measures) relating to Marsh's placements, particularly in Marsh & McLennan Agency ("MMA") and in parts of Marsh's international operations. Revenue for contingent commissions from insurers is estimated based on historical evidence of the achievement of the respective contingent metrics and recorded as the underlying policies that contribute to the achievement of the metric are placed. Due to the uncertainty of the amount of contingent consideration that will be received, the estimated revenue is constrained to an amount that is probable to not have a significant negative adjustment. Contingent consideration is generally received in the first quarter of the subsequent year.

A significant majority of the Company's Risk and Insurance Services revenue is for performance obligations recognized at a point in time. Marsh and Guy Carpenter also receive interest income on certain funds (such as premiums and claims proceeds) held in a fiduciary capacity for others.

Insurance brokerage commissions are generally invoiced on the policy effective date. Fee based arrangements generally include a percentage of the total fee due upon signing the arrangement, with additional fixed installments payable over the remainder of the year. Payment terms range from receipt of invoice up to 30 days from invoice date.

Reinsurance brokerage is recognized on the effective date of the treaty. Payment terms depend on the type of reinsurance. For XOL treaties, brokerage is typically collected in four installments during an annual treaty period based on a contractually specified minimum or deposit premium. For proportional or quota share treaties, brokerage is billed as underlying insured risks attach to the reinsurance treaty, generally over 12 to 18 months.

Consulting

The major component of revenue in the Consulting business is fees paid by clients for advice and services. Mercer, principally through its health line of business, also receives revenue in the form of commissions received from insurance companies for the placement of group (and occasionally individual) insurance contracts, primarily health, life and accident coverages. Revenue for Mercer’s investment management business and certain of Mercer’s defined benefit administration services consists principally of fees based on assets under delegated management or administration.

Consulting projects in Mercer’s wealth and career businesses, as well as consulting projects in Oliver Wyman typically consist of a single performance obligation, which is recognized over time as control is transferred continuously to customers. Typically, revenue is recognized over time using an input measure of time expended to date relative to total estimated time incurred at project completion. Incurred hours represent services rendered and thereby faithfully depicts the transfer of control to the customer.

On a limited number of engagements, performance fees may also be earned for achieving certain prescribed performance criteria. Revenue for achievement is estimated and constrained to an amount that is probable to not have a significant negative adjustment.

A significant majority of fee revenues in the Consulting segment is recognized over time.

For consulting projects, Mercer generally invoices monthly in arrears with payment due within 30 days of the invoice date. Fees for delegated management services are either deducted from the net asset value of the fund or invoiced to the client on monthly or quarterly basis in arrears. Oliver Wyman typically bills its clients 30-60 days in arrears with payment due upon receipt of the invoice.

Health brokerage and consulting services are components of both Marsh, which includes MMA, and Mercer, with approximately 70% of such revenues reported in Mercer. Health contracts typically involve a series of distinct services that are treated as a single performance obligation. Revenue for these services is recognized over time based on the amount of remuneration the Company expects to be entitled in exchange for these services. Payments for health brokerage and consulting services are typically paid monthly in arrears from carriers based on insured lives under the contract.

The following schedule disaggregates various components of the Company's revenue: