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## AIA Keynote Address

### Insurance Industry Overview

Monday, May 1<sup>st</sup>, 2017

Jack Kuhn, CEO of Global Insurance

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## Sampo International Insurance

### Endurance Rebranded

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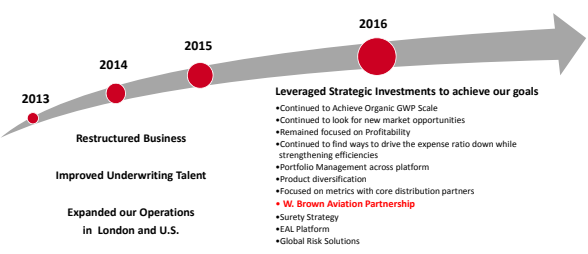
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### The Transformation of Endurance's Specialty Insurance Businesses

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We continue to enhance our positioning and relevance in the market as we have rebalanced our portfolios, attracted new leadership, and improved underwriting talent. We will continue to expand Globally & in the U.S.



**2013**

- Restructured Business
- Improved Underwriting Talent
- Expanded our Operations in London and U.S.

**2014**

**2015**

**2016**

**Leveraged Strategic Investments to achieve our goals**

- Continued to Achieve Organic GAAP Scale
- Continued to look for new market opportunities
- Remained focused on Profitability
- Continued to find ways to drive the expense ratio down while strengthening efficiencies
- Portfolio Management across platform
- Product diversification
- Focused on metrics with core distribution partners
- W. Brown Aviation Partnership
- Surety Strategy
- EAL Platform
- Global Risk Solutions

We will continue to invest in our operations through additions of acknowledged market leaders as well as expanded global underwriting talent. Our goal is to produce a more consistent level of profitability while reducing volatility in order to deliver excellent sustainable results for our shareholders.

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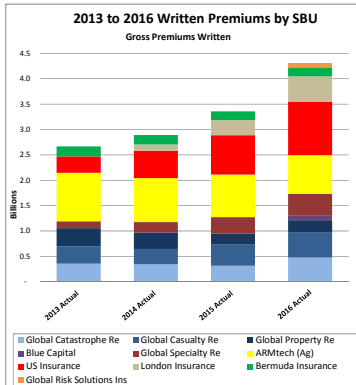
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### The Evolution of Endurance Holdings




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### The New Sompo



- On March 28, 2017, Sompo Holdings, Inc. (Sompo) acquired Endurance Specialty Holdings, Ltd. for a total consideration of approximately \$6.3 billion USD.
- Endurance has now been rebranded as part of the new Sompo International which, as the overseas commercial insurance and reinsurance operation of Sompo Holdings, which also includes Sompo America and SJNK Europe.
- John Charman and the Executive Leadership Team of Endurance have committed to remain as the new leadership team of Sompo International.
- Upon the closing of the transaction:
  - A.M. Best Company, Inc. has upgraded to A+ (Superior) the financial strength ratings of our operating subsidiaries
  - Standard & Poor's has changed the outlook for our A ratings from to "Positive" from "Stable".

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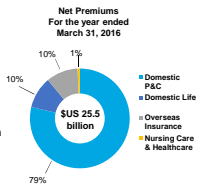
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### Sompo Highlights

- Sompo was founded in Japan in 1887 and has since built a global network in 32 countries operating in Europe, North America, Central and South America, Asia and Oceania, and the Middle East and Africa.
- Sompo is a highly respected insurance company with more than 76,000 employees worldwide. The company is also traded on the Tokyo Stock Exchange and has more than \$90 billion in total assets and \$14 billion USD in shareholders' equity.
- Sompo has developed a range of businesses centered on the Japan domestic P&C insurance business, Japan domestic life insurance, Japan nursing care & healthcare businesses and overseas insurance.
- Sompo's FY 2016 net premiums were \$25.5 billion USD. Of this, 90% are from the domestic Japanese market.
- Sompo has a strategic intent to expand overseas and establish a highly attractive fully integrated global commercial insurance and reinsurance platform through Sompo International.
- Sompo's core business, Sompo Japan Nipponkoa Insurance Company (SJNK), encompasses one of the largest property and casualty insurance groups in the Japanese domestic market with approximately 27% market share.
- SJNK has A+ financial strength ratings from both A.M. Best and Standard & Poor's. SJNK has more than \$60 billion USD in total assets and shareholders' equity of \$11 billion USD.




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### Sompo's Operations

Sompo's global business network encompasses offices in 211 cities in 32 countries and regions.

- Sompo has insurance licenses in coloured geographies.
- Sompo has rep offices in Johannesburg, Dubai and Moscow.

As of March 31, 2016

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### Insurance Industry Cycle

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### Key Drivers of Profitability

Investment Income

Reserve Releases

**Underwriting**

Investment in Technologic Efficiency  
Driving Down Acquisition Expenses/Developing New Distribution Avenues

Product Innovation  
Creating New Revenue Opportunities

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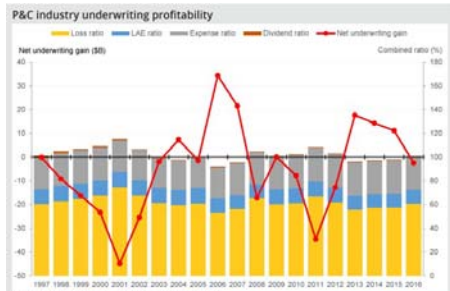
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### Insurance Industry Market Cycle



Sources: S&P Global

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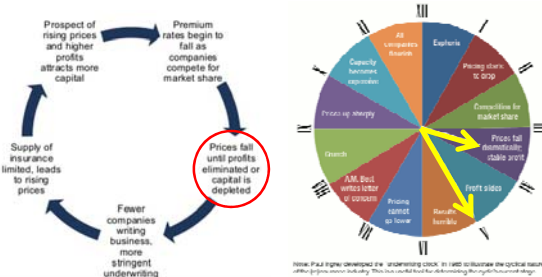
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### The "Insurance Clock": Profit Slides



Sources: Mercer Capital & ARTEMIS

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### Where are We Now: The Market

- We are Seeing Underwriting Profitability Becoming Challenging in Some Lines of Business**
  - Example: Commercial and Private Passenger Motor
- Focus on Expenses and Acquisition Cost**
  - Broker Commoditization of the Business via Facilities
- CAT Business Experience Serious Margin Compression**
  - No Longer Subsidizing Other Lines
- Lack of Major U.S. CATs**
  - Counter-balanced by Impact of "Mid-Sized" Large Losses and Attritional Activity Absorbing Margins
- Deceleration of Reserve Releases**
  - In Some Cases Reserve Strengthening - Also Impact of Ogden Rates
- Investment Side of the Balance Sheet Providing Inconsistent Returns**
  - Increase in Interest Rates Will Also Affect Bond Valuation (Mark to Market Impact)
- M&A Driving Consolidation**
  - As a Result of Challenging Profitability Environments and Attempt to Achieve Scale

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### 2017 Market Environment

- Global reinsurer capital continues to rise to a new high of \$595B
  - Traditional capital grew 4% to \$514B
  - Alternative capital grew 13% to \$81B
- Ample capacity to meet expected reinsurance demand
- General market environment remains soft
  - In many cases reductions are beginning to slow and loss affected treaties are showing some strengthening
  - Continue to see broadened terms and increased requests for multi-year covers at renewal

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### Current Industry Consolidation (2016/2017)

#### Largest P&C Insurance M&A

Acquirer	Target	Disclosed Transaction Value (\$ in Millions)
Sompo Holdings	Endurance Specialty	\$6,304
Fairfax Financial	Allied World Assurance	\$4,900
Arch Capital	United Guaranty	\$3,400
Liberty Mutual	Ironshore	\$3,000

#### Largest P&C Insurance Distribution and Services M&A

Acquirer	Target	Disclosed Transaction Value (\$ in Millions)
Standard Life PLC	Aberdeen Asset Management	\$4,700
Blackstone	Aon's Benefits Admin. & HR Business	\$4,300
Management	Acrisure	\$2,900
OptumRx	PBM Helios	\$1,700
Allstate	SquareTrade	\$1,400

Source: Global Insurance Distribution & Services Sector Mergers & Acquisitions 2017 "The Best Goes On..." by Conning, Inc.

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### Disruptive Technology

The diagram illustrates the transition from a traditional value chain to a future-oriented one. It is divided into three stages: Historical Value Chain, Today's Value Chain, and The Future?.

- Historical Value Chain:** A vertical stack of Reinsurer, Reinsurance Broker, Insurer, and Broker/Bank.
- Today's Value Chain:** A vertical stack of Reinsurer, Reinsurance Broker, Insurer, and Broker/Bank/Agg./Direct. An 'Alternative Capital' block is added to the right of the Reinsurer.
- The Future?:** A vertical stack of Asset Manager/Capital Provider, Data Owner, Analytics Engine, and Distributor.

Source: Insurance Information Institute via TigerRisk

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Possible Market Change on Horizon if Results Deteriorate

- Underwriting Profitability is Challenged - Not Achieving Cost of Capital
- AY Result Impact Being Unmasked as CY Numbers Fade with Diminishing Prior Year Releases
- Reserve Strengthening
- Expense Rationalization Initiatives
- Investment Income Deficient - ROE Hurdles Not Obtained
- Withdrawal from Challenged Lines of Business
- Mergers & Acquisitions

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Future Possibilities

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Growth Opportunities for the Insurance Industry

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# General Aviation Observations

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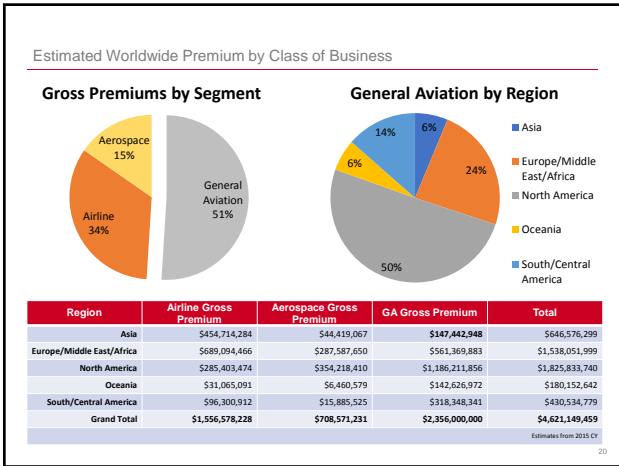
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### General Aviation Insurance Observations: State of the Market

- Current capacity levels remain high and may be the single contributor to market conditions but there is some anecdotal evidence of markets withdrawing or reducing involvement due to current environment.
- While the market remains stubbornly pliant due to the capacity suppressing the winds of change there continues to be indications of the "mythical" pricing floor wanting to materialize. The market is ready for it and continued pressure on the overall insurance industry will hopefully begin to focus the market.
- Smaller markets are being marginalized as relevance matters giving rise to a consortium approach in some markets.
- Overall the aviation insurance market had not seen any pricing corrections in 2016 as there were too many markets chasing too few opportunities. Hopefully 2017 will see a hardening mentality.
- Overall though the U.S. General Aviation Market appears better positioned since it is not driven by broker line slips as those that affect the London markets where deductions are approaching unsupportable levels.

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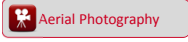
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### General Aviation Insurance Market Opportunities

- Unmanned Aircraft Systems / drones represent a new opportunity for the market with broad potential for industries such as:



Aerial Photography



Governmental Usages



Agriculture



Real Estate

- E-business opportunities offer a complimentary distribution channel into current marketplaces for smaller, transactional policies.

W. Brown & Associates: Flight Line Plus



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