Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

Net income in the U.S. Property & Casualty Insurance Industry jumped nearly 50% to $39.8 billion for the first six months of 2021 compared to $26.8 billion for the same period last year due to higher investment gains as financial markets bounced back from the economic downturn brought on by the pandemic. Conversely, underwriting gains were moderately lower due to higher losses and LAE incurred, particularly auto losses, as traffic volume returned to near normal while an increase in the frequency and severity of natural disasters led to higher property losses. Industry net income and sizeable unrealized capital gains drove policyholders' surplus to over one trillion dollars at June 30, 2021. While financial markets have rebounded, operating results will certainly be impacted by an active hurricane season, severe storms, and unprecedented wildfires in the second half of the year.

Inside the Report

U.S. Property/Casualty Insurance Industry Results

(in billions, except for percent)

For the six months ended June 30, (in billions, except for percent)	Chg.	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Direct Premiums Written	9.0%	$394.8	$362.3	$355.2	$340.6	$321.3	$306.9	$295.5	$282.8	$269.1	$259.9
Net Premiums Written	7.2%	$351.2	$327.6	$315.3	$316.7	$280.4	$268.8	$261.1	$251.4	$241.4	$231.6
Net Premiums Earned	5.2%	$333.0	$316.6	$308.3	$297.4	$270.4	$261.6	$252.5	$243.0	$243.0	$223.4
Net Loss & LAE Incurred	6.7%	$231.7	$217.2	$215.8	$204.9	$197.5	$186.9	$175.0	$171.8	$159.5	$163.8
Underwriting Expenses	3.5%	$93.4	$90.2	$85.4	$85.3	$75.8	$74.5	$72.4	$69.3	$67.6	$65.6
Underwriting Gain (Loss)	(16.7%)	$7.4	$8.9	$6.5	$7.0	($3.2)	($0.2)	$4.7	$1.5	$5.8	($5.9)
Net Loss Ratio	1.0 pts	69.6%	68.6%	70.0%	68.9%	73.0%	71.4%	69.3%	70.7%	70.7%	73.3%
Expense Ratio	(0.9) pts	26.6%	27.5%	27.1%	26.9%	27.0%	27.7%	27.7%	27.6%	26.9%	28.3%
Dividend Ratio	(0.8) pts	0.71%	1.55%	0.55%	0.53%	0.54%	0.55%	0.53%	0.57%	0.52%	0.48%
Combined Ratio	(0.8) pts	96.9%	97.7%	97.6%	96.3%	100.6%	99.7%	97.6%	98.8%	98.1%	102.2%
Investment Inc. Earned	2.0%	$28.9	$28.3	$29.3	$28.9	$25.6	$24.2	$24.7	$25.2	$27.0	$25.4
Realized Gains (Losses)	NM	$9.7	($0.9)	$4.6	$5.5	$3.9	$4.8	$8.5	$7.6	$11.1	$4.1
Investment Gain (Loss)	40.7%	$38.6	$27.4	$33.9	$34.4	$29.5	$29.0	$33.2	$32.8	$38.1	$29.5
Investment Yield (a)	(0.25)-pts	2.90%	3.15%	3.47%	3.50%	3.28%	3.24%	3.32%	3.48%	3.96%	3.85%
Net Income (b)	48.4%	$39.8	$26.8	$34.8	$35.8	$17.7	$22.2	$32.7	$28.5	$35.7	$20.1
Return on Revenue	(2.4)-pts	10.7%	7.8%	10.2%	10.8%	5.9%	7.6%	11.4%	10.3%	12.7%	8.0%
		June 30,	December 31, 2012-2020								
	Chg.	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Capital & Surplus (b)	6.5%	$1,017.0	$955.1	$891.2	$780.0	$786.0	$734.0	$705.9	$706.7	$686.1	$615.8

(a) annualized, (b) adjusted to removed stacked entities
NM = Not Meaningful

MARKET CONDITIONS

Premium Pricing

Market conditions in the U.S. P&C Insurance Industry have hardened within various lines of business, brought on by an increase in the frequency and severity of large-scale loss events (particularly the record-breaking hurricanes of 2017 and 2018), preceded by several years of declining prices and low interest rates. Winter storms in the southern U.S., western wildfires, an active Atlantic hurricane season, and increasing severity of commercial liability claims are likely to cause these market conditions to persist as we move through the balance of the year and into next year. According to the Council of Insurance Agents and Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2021(April 1 – June 30)*, Q2 2021 was the fifteenth consecutive quarter of increased premiums, with respondents reporting an average increase of 8.3%. The CIAB also indicated that premiums increased for all commercial lines of business for the fifth consecutive quarter with an average premium price increase for the five major lines of 8.1% as shown in the table below.

BY-LINE SECOND QUARTER 2021 RATE CHANGES RANGED FROM 0.3% TO +17.4%

	COMM'L AUTO	WORKERS' COMP	COMM'L PROPERTY	GEN'L LIABILITY	UMBRELLA	AVERAGE
Second Quarter 2021	6.8%	0.3%	9.9%	6.0%	17.4%	8.1%
First Quarter 2021	9.0%	1.0%	12.0%	6.2%	19.7%	9.6%
Fourth Quarter 2020	9.1%	0.4%	12.9%	7.3%	21.3%	10.2%
Third Quarter 2020	11.0%	1.5%	14.2%	6.7%	22.9%	11.3%
Second Quarter 2020	9.6%	0.7%	13.3%	6.8%	20.0%	10.1%
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	-11.6%	-12.3%	-15.0%	-13.6%	-13.5%	-13.2%

Source:
The Council of Insurance Agents & Brokers

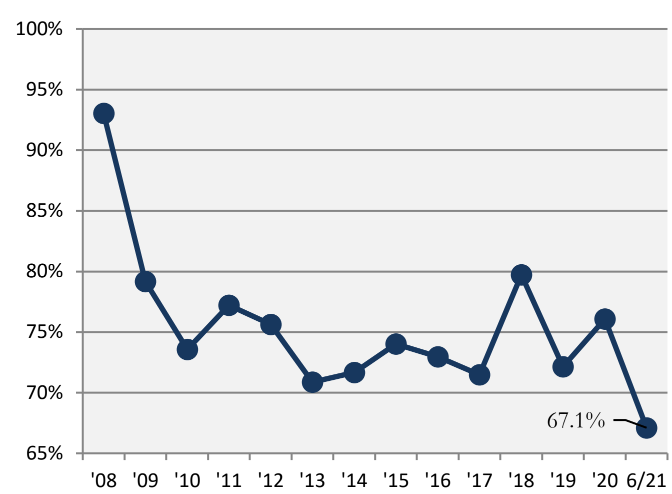
Along with increased premium pricing, CIAB survey respondents reported decreased underwriting capacity as carriers are increasing deductibles, reducing limits, modifying terms and conditions, and exercising more underwriting scrutiny as claims severity remained an issue. Social inflation and nuclear verdicts have been the primary factors driving rate increases and decreased capacity within the General Liability and Umbrella lines. Further, 81% of respondents reported a decrease in capacity for Cyber insurance due to an uptick in ransomware attacks, which contributed to an average price increase of 25.5%.

Capacity

Industry capacity remains abundant as evidenced by a net writings leverage ratio of 67.1% at June 30, 2021, as seen in the accompanying chart. A trend of industry profits has helped lift capital levels to an all-time high.

This has already been an eventful year with respect to natural catastrophes and the second half of the year will likely see additional losses resulting from an active hurricane season and relentless wildfires in the western U.S. While the impact of these events on overall market conditions or industry profits cannot be determined, we know that the capital strength of the industry remains strong.

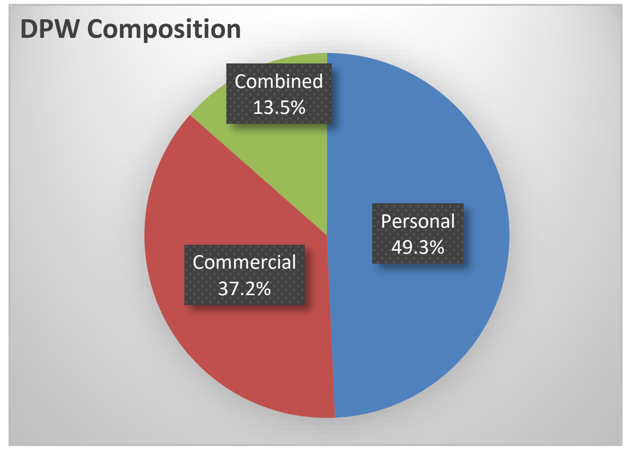
Net Writings Leverage



PREMIUM

Direct premiums written (DPW) increased 9.0% to $394.8 billion in the first half of 2021 compared to $362.3 billion for the same period in 2020. The robust growth can be attributed to an economic recovery from Covid-19, which drove auto premiums down last year and contributed to a hardening commercial market.

DPW in the **Personal Lines Market** totaled $194.8 billion for the first half of 2021, a 5.4% increase compared to $184.9 billion for the same period last year. Private Passenger Auto Liability premiums increased 2.8% to $77.0 billion, a rebound compared to the same period last year where the pandemic impacted auto premium volume. Auto Physical Damage premiums were 6.8% higher and have steadily increased in recent years, largely due to a trend in higher vehicle repair costs. Several years of attritional losses and higher-than-expected loss reserve development related to 2017 and 2018 catastrophes has prompted higher pricing within the Homeowners line including a 7.5% increase in DPW to $57.4 billion for the current period.



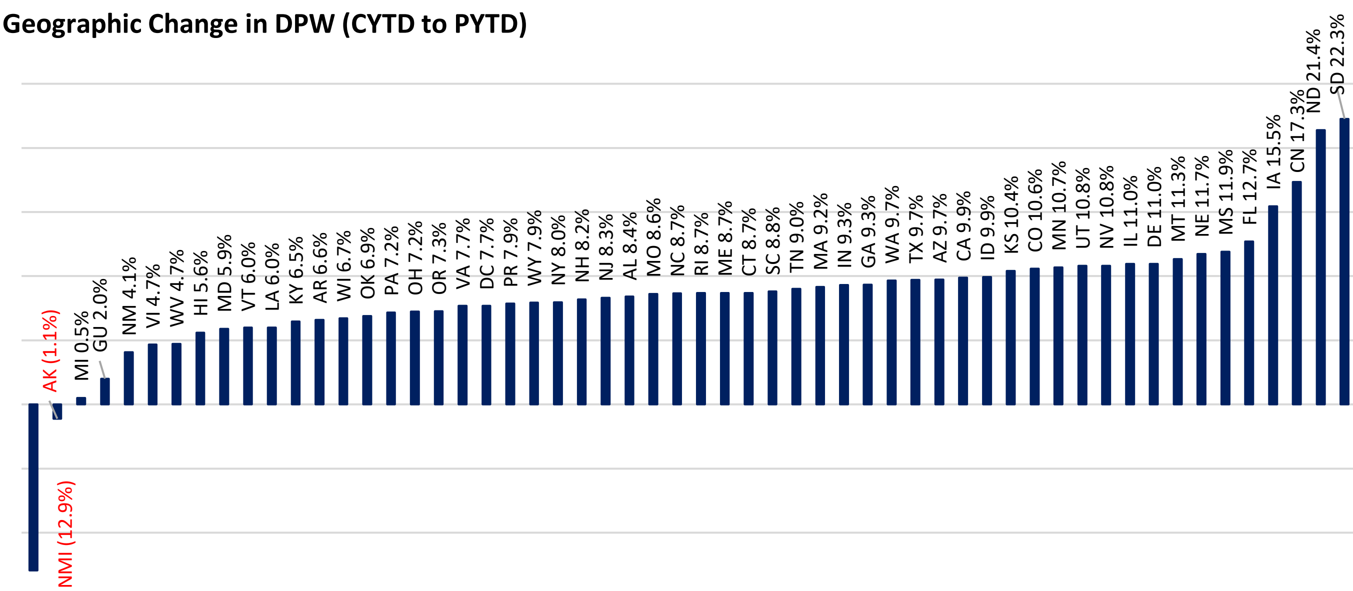
DPW in the **Commercial Lines Market** increased 12.0% compared to the prior year to date to $146.9 billion as pricing in all major lines continued to rise. Commercial Liability DPW increased 21.1% YoY to $49.5 billion. DPW in the Commercial Auto Liability line increased 23.1% YoY to $21.1 billion. Commercial Multiple Peril premiums increased 6.5% and Workers' Compensation DPW was flat at $27.0 billion.

The **Combined Lines Market** saw a 14.7% increase in DPW to $53.1 billion. The top three lines of business in this market, Allied Lines, Inland Marine, and Fire saw increases of 23.7%, 9.3%, and 9.9%, respectively.

Overall, net premiums written increased by 7.2% to $351.2 billion.

Premium by States/Territories

Geographic Change in DPW (CYTD to PYTD)



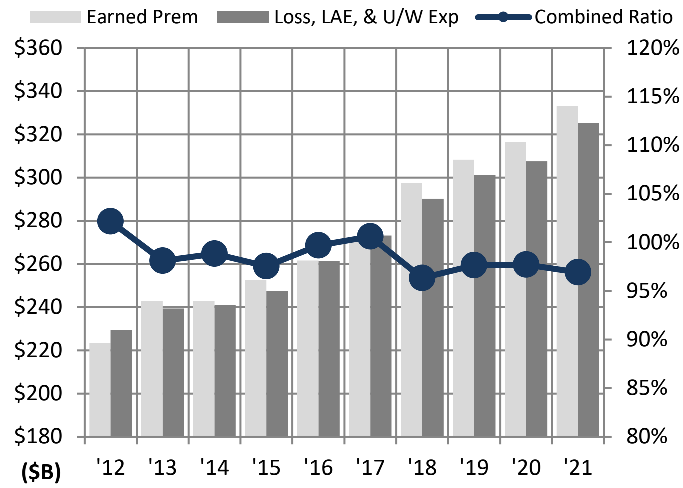
All states and territories experienced DPW growth compared to the prior year-to-date, except for Alaska, the Northern Mariana Islands, and American Samoa (not shown in chart, down 74.5%). The chart above shows the percent change in DPW by state and territory for the current period compared to the prior year period. North Dakota, South Dakota, and Iowa experience the greatest YoY growth at 22.3%, 21.4%, and 15.5%, respectively.

UNDERWRITING OPERATIONS

The industry recorded a $7.4 billion underwriting gain for the first half of 2021, which was slightly lower compared to the $8.9 billion gain for the same period last year. Despite the slight deterioration, underwriting gains have been reported for the last four consecutive mid-year periods. The deterioration in the current period was driven by a return to more normal traffic levels and increased catastrophe losses.

For the current period, net premiums earned increased 5.2% to $333.0 billion while net losses and LAE incurred increased 6.7% to $231.7 billion resulting in a 1.0-point deterioration in the net loss ratio to 69.6%. The growth in net premiums written outpaced the increase in underwriting expenses, resulting in a small improvement in the expense ratio to 26.6%. The dividend ratio returned to a more normalized level of 0.71% vs. 1.55% for the prior year period as fewer insurers refunded auto premiums to policyholders as Covid-19 related shutdowns eased. Overall, the improvement in the expense and dividend ratio offset the higher loss ratio, resulting in a 0.8-point improvement in the combined ratio to 96.9%.

Underwriting Income (Six months ended June 30)



Catastrophes

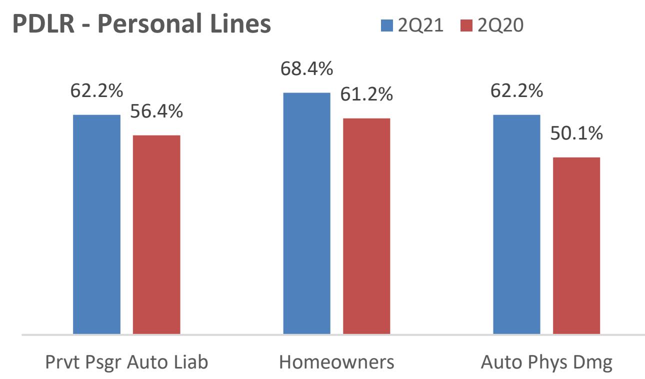
Several estimates put global insured losses from natural disasters at roughly $40.0 billion for the first half of 2021, the highest of any mid-year period in the last ten years. According to the NOAA National Centers for Environmental Information, there have been eight weather/climate disaster events with losses exceeding $1.0 billion in the U.S. during the first half of 2021. The largest of which was a historic cold wave in February stretching from Nebraska to Texas where snow and ice caused power outages and extensive property damage. The average number of annual billion-dollar events from 1980-2020 was 7.1. The annual average for the most recent five years (2016-2020) was 16.2, reflecting a significant increase in large-scale natural disasters. The 2021-billion-dollar events through June 30 are listed below:

Event	Date	Area/States Impacted	Estimated Economic Loss ($B)
Winter Storm and Cold Wave	2/10/21 – 2/19/21	TX/Midwest/South	$20.4
Tornadoes/Flooding/Hail	4/27/21 – 4/28/21	TX/OK	$2.4
Southeast U.S. Tornadoes	3/24/21 – 3/25/21	KY, TN, MS, AL GA	$1.6
Eastern Severe Weather	3/27/21 – 3/28/21	AR, AL, GA, MS, SC, NC, VA, TN	$1.4
Louisiana Flooding	5/15/21 – 5/19/21	LA, TX	$1.3
Texas Hailstorms	4/12/21 – 4/15/21	TX	$1.2
California Flooding/Mudslides	1/24/21 – 1/29/21	CA	$1.1
Western Drought/Heatwave	1/1/21 – Ongoing	OR, WA CA	TBD

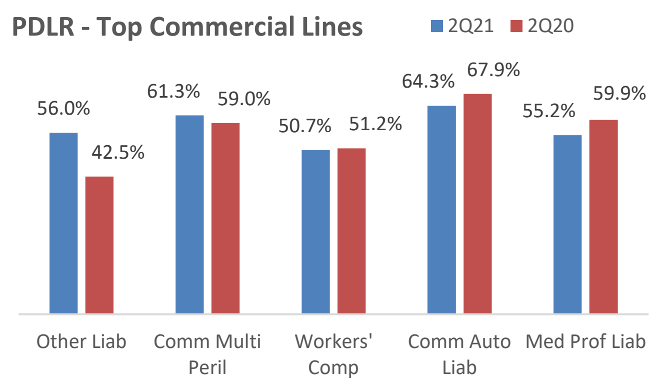
NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2021). https://www.ncdc.noaa.gov/billions/, DOI: 10.25921/stkw-7w73

Pure Direct Loss Ratio

The industry's overall pure direct loss ratio (PDLR) worsened 3.7-points compared to a year ago to 59.6%. Direct premiums earned increased 6.1% while direct losses incurred increased at a higher rate of 13.1%. The deterioration was primarily due to an 8.1-point increase in the Personal Lines Market PDLR which stemmed from an 18.8% increase in direct losses incurred. Personal Auto direct losses incurred were sharply higher as claims frequency normalized compared to the same period last year. Homeowners' direct losses incurred were 18.3% higher due to the increased frequency and severity of natural disasters as previously discussed.



The Commercial Lines Market PDLR was 55.1%, a slight deterioration compared to 52.7% for the same period last year. Direct premiums earned increased 8.2% while direct losses incurred increased 13.2%. Last year, the pandemic forced non-essential businesses to close temporarily, reducing their exposure to liability claims. As economic activity increased in late 2020 and in the first half of 2021, so did commercial liability losses. This was particularly evident in the PDLR for the Other Liability Line, which returned to a more normalized level of 56.0% compared to 42.5% for the same period last year.

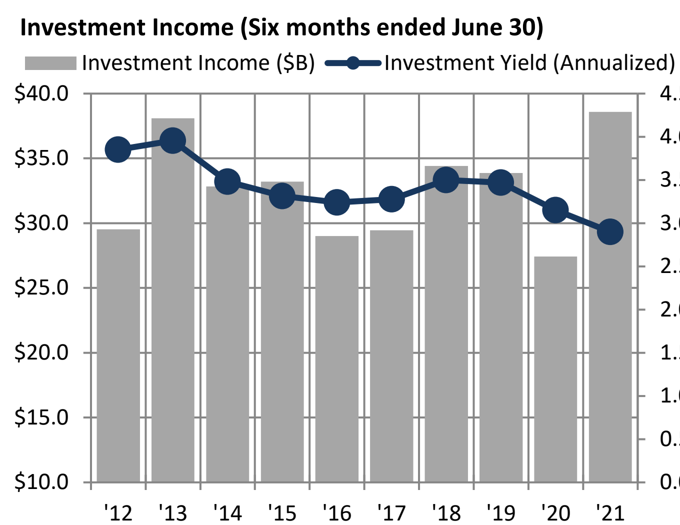


Other major commercial lines, such as Workers' Compensation, Commercial Auto Liability, and Medical Professional Liability saw slight improvements while the Commercial Multiple Peril PDLR worsened by 2.3-points to 61.3%.

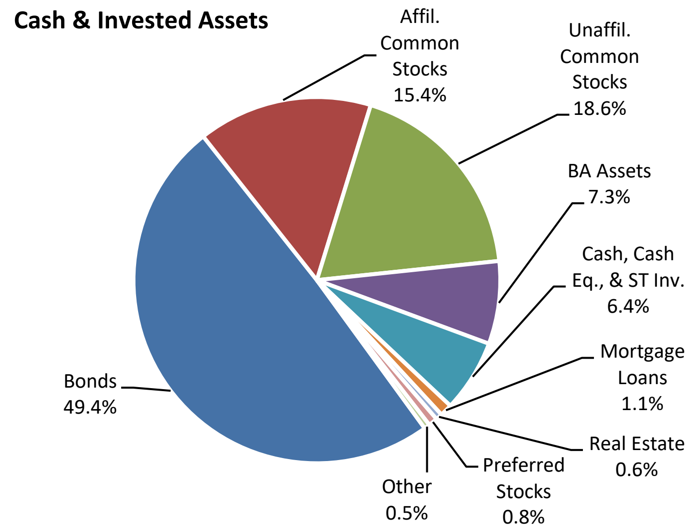
INVESTMENT OPERATIONS

Industry investment returns rebounded from the economic downturn experienced in the first half of last year, totaling $38.6 billion for the six months ended June 30, 2021. Net investment income earned was 2.0% higher while the industry reported realized capital gains of $9.7 billion compared to realized capital losses of $1.0 billion a year ago. Investment yield (annualized) was 2.90% versus 3.15% for the prior year period.

One of the key drivers of the prolonged low interest rate environment is the Federal Funds Rate. The Federal Reserve (Fed) maintained the Federal Funds Rate at 0.25% on July 28, 2021, where it has been since March 2020 due to ongoing uncertainty regarding the economic outlook and the path of economic recovery being highly dependent on the course of the virus and progress of vaccinations. The Fed noted that the federal funds rate target range will be 0.0% to 0.25% until labor market conditions reach levels consistent with maximum employment and inflation reaches 2%.

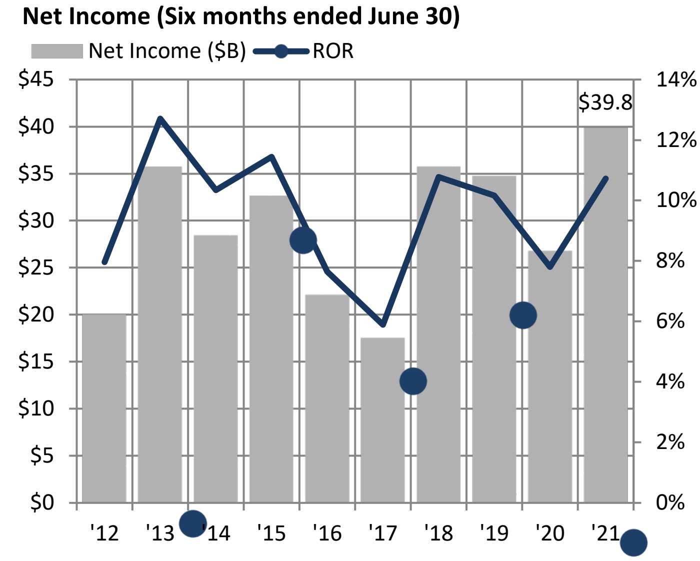


The industry's cash and invested assets allocation is shown to the right. Bonds comprised the majority totaling $1.2 trillion, which equated to 49.4% of total cash and invested assets, followed by unaffiliated common stocks of $445.2 billion (18.6% of total cash and invested assets), and $368.5 billion in affiliated common stocks (15.4% of total cash and invested assets). It is important to note there has been a shift in investment strategy to riskier investments over the last several years in response to the lower investment rate environment. For example, at December 31, 2008, unaffiliated common stocks comprised 9.9% of total cash and invested assets, and Schedule BA assets comprised 4.5%.



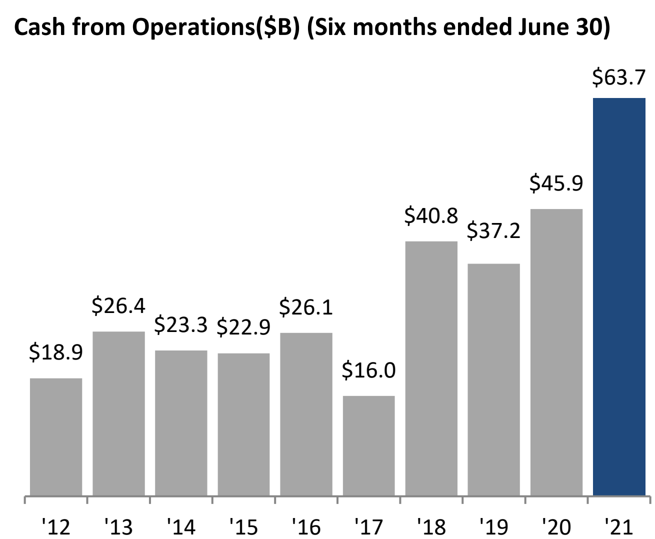
NET INCOME

Net income of $39.8 billion was 48.4% higher compared to net income of $26.8 billion in the prior year period driven by the 40.7% increase in investment income. Further, current period net income was the highest mid-year net profit in the last ten years. Return on revenue (RoR) of 10.7% reflected the solid profitability and was 2.4-points higher compared to last year's RoR of 7.8%.



CASH & LIQUIDITY

Net cash provided by operating activities totaled $63.7 billion for the first six months of 2021 compared to $45.9 billion for the same period in 2020, representing a 39.1% increase. The improvement stemmed from a 10.0% increase in premiums collected net of reinsurance to $345.0 billion and a 3.8% increase in investment income to $30.8 billion. A 4.2% increase in cash outflows partially offset the items mentioned above, as benefit and loss related payments increased 2.2% to $174.0 billion, and commissions and expenses paid were 3.0% higher.

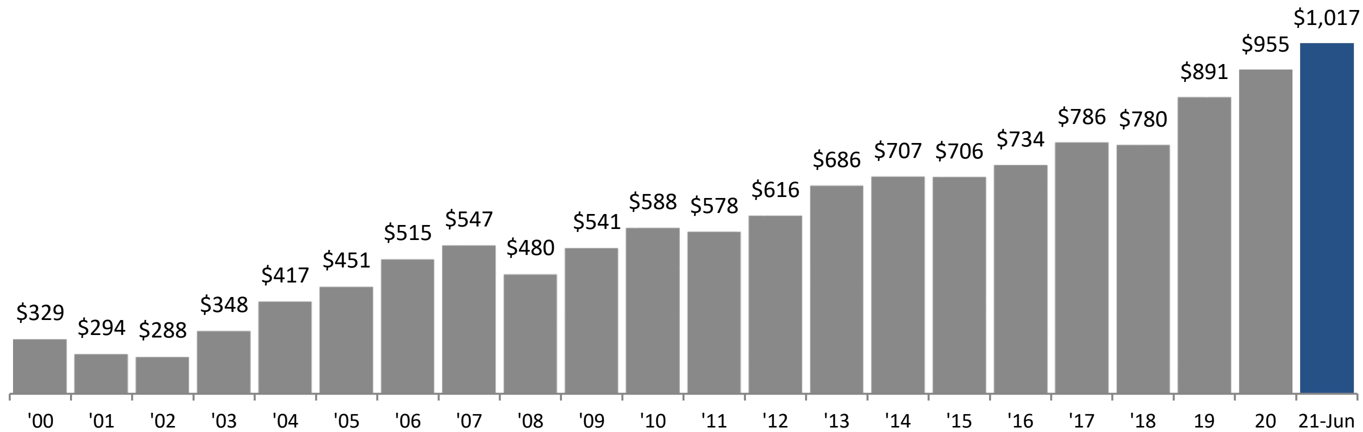


The industry liquidity ratio improved 2.1-points since the prior year-end to 76.8% at June 30, 2021. Liquid assets increased 11.9% due to a 13.5% increase in cash and invested assets while adjusted liabilities increased at a lesser pace of 8.9%,

CAPITAL & SURPLUS

Industry aggregated policyholders' surplus (adjusted for affiliated investments) reached $1.0 trillion at June 30, 2021, an increase of 6.5% compared to $955.1 billion at December 31, 2020. A long trend of net income in the industry has boosted capital levels to all-time highs in recent years. Current period unrealized gains of $59.3 billion also contributed to the surplus growth, reflecting a rebound in the financial markets from the pandemic experienced in the prior year period when unrealized losses totaled $43.2 billion.

Capital & Surplus ($B)

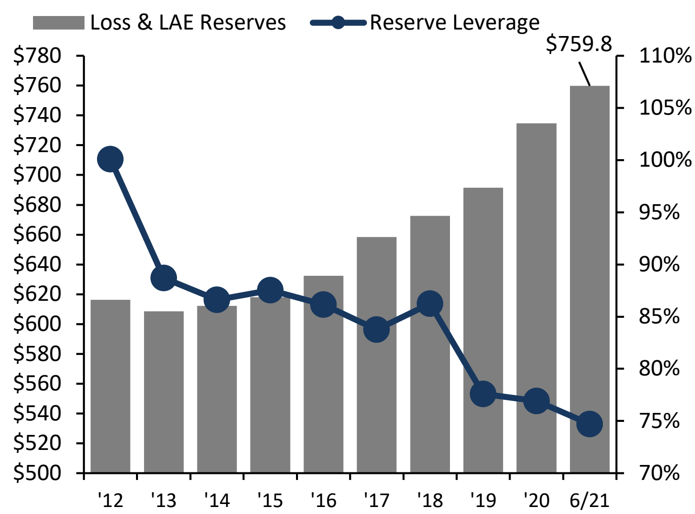


LOSS & LAE RESERVES

Loss and LAE reserves increased 7.3% since the prior year-end to $759.8 billion at June 30, 2021, and was comprised of $631.6 billion unpaid losses and $128.2 billion unpaid LAE. For the current period, reserve leverage improved 2.2-points to 74.7% compared to 76.9% at the prior year-end.

The trend in net favorable loss reserve development continued with an overall redundancy of $9.7 billion in the first half of 2021, which consisted of a $52.6 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $42.9 billion deficiency in prior year known case loss and LAE reserves.

Loss & LAE Reserves ($B)



LOOKING AHEAD

The 2021 Atlantic hurricane season is underway and shows no signs of slowing. Hurricane Ida made landfall on August 29 near Port Fourchon, LA and was the second most damaging hurricane to strike the state of Louisiana, behind Hurricane Katrina. Ida also caused catastrophic flooding across the northern U.S. Overall economic losses could reach $50.0 billion according to estimates, with insured losses estimated at $18.0 billion in Louisiana. The latest outlook indicates the number of expected named storms could range from 15-21, including 7-10 hurricanes, with 3-5 becoming major hurricanes (Category 3, 4, or 5).

Wildfires continue to rage in the western U.S. as a severe drought has sparked fires that have burned more than three times as much land in California this year, than at this time last year. Wildfires typically last from May until October. However, fires burned late into 2020, burning over 700 thousand acres in December, indicating a possible pattern shift.

Title Insurance Industry

Title Industry Results (in millions, except for percent data)

For the six months ended June 30,	YoY Chg.	2021	2020	2019	2018	2017
Direct Premiums Written	51.4%	$12,315	$8,136	$6,913	$7,019	$6,800
Direct Ops.	42.0%	$1,226	$863	$854	$832	$823
Non-Aff. Agency Ops.	53.5%	$7,997	$5,211	$4,257	$4,354	$4,286
Aff. Agency Ops.	49.9%	$3,092	$2,063	$1,803	$1,833	$1,691
Premiums Earned	49.0%	$11,969	$8,034	$6,871	$6,982	$6,712
Loss & LAE Incurred	11.9%	$285	$255	$283	$306	$289
Operating Exp Incurred	46.3%	$11,454	$7,828	$6,710	$6,739	$6,541
Net Operating Gain/(Loss)	88.1%	$1,190	$633	$465	$499	$436
Net Inv. Income Earned	(17.2)%	$168	$203	$202	$160	$182
Net Realized Gain/(Loss)	NM	$25	$(26)	$44	$13	$14
Net Inv. Gain (Loss)	8.6%	$193	$178	$247	$174	$196
Net Income	64.2%	$1,108	$675	$585	$676	$459
Loss Ratio	(0.8)-pts	2.4%	3.2%	4.1%	4.4%	4.3%
Expense Ratio	(1.7)-pts	95.7%	97.5%	97.7%	96.6%	97.5%
Combined Ratio	(2.5)-pts	98.1%	100.6%	101.8%	100.9%	101.8%
Net Unrealized Gain/(Loss)	NM	$270	$(187)	$215	$(75)	$35
Net Cash from Operations	86.6%	$1,286	$689	$348	$462	$508

NM=Not Meaningful

Premium

The Monthly New Residential Construction, August 2021 report from the U.S. Census Bureau and the U.S. Department of Housing and Urban Development showed August single-family housing starts were up 17.4% (±12.1%) from August 2020. Nationally, permits, starts, and completions increased over the past one and five years. These increases over the prior year to date were seen across all regions. The U.S. title insurance business reflected this rise as direct premiums written (DPW) increased 51.4% (or $4.2 billion) to $12.3 billion for the first half of 2021. The majority (53.5%) of DPW were produced through non-affiliated agency operations. The big four title insurance groups, First American Title Insurance Company (First American), Old Republic National Title Insurance Company (Old Republic), Chicago Title Insurance Company (Chicago), and Fidelity National Title Insurance Company (Fidelity) continued to dominate the market share, comprising 61.5% collectively, with First American ranked first with 20.0% of the total DPW. The title market was slightly less concentrated than last year, with Westcor Land Title Insurance Company (6th by DPW) the largest to not lose market share on a percentile basis. None of the ten largest insurers (87.7% total DPW) changed rank from last year despite this dilution.

Profitability

A net operating gain of $1.2 billion was reported for the first half of 2021, representing an 88.1% YoY improvement compared to $632.9 million for the first half of 2020. This improvement was driven by a 48.3% (or $4.2 billion) improvement in total operating income to $12.9 billion, exceeding the 45.2% (or $3.7 billion) increase in total operating expenses to $11.7 billion. The rise in total operating income was largely due to a 49.0% increase in title insurance premiums earned.

The combined ratio of 98.1% was the lowest it has been since at least 2009. This year is the only time the mid-year combined ratio has been below 100% in that period as well. Both the net loss ratio and expense ratio showed improvements versus 2020 as well as over the longer term, with the net loss ratio now half of its value (2.4% vs 4.8%) in 2016.

A net investment gain of $193.1 million was 8.6% higher compared to the prior year period. Net investment income earned was $168.5 million, a 17.2% decrease compared to 2020. This is the only dollar denominated (non-ratio) item from the Summary table to decrease YoY. There was a net realized gain of $24.7 million this year versus a $25.7 million loss in 2020, with the sharp fluctuation concentrated in a few companies.

Overall, the solid operating results and turnaround in net realized gains more than offset the decline in investment income earned, boosting net income by 64.2% to $1.1 billion for the first half of 2021.

Capital & Surplus

The title industry's aggregated policyholders' surplus (PHS) increased 12.0% (or $748.7 million) to $7.0 billion at June 30, 2021. This increase was driven by a $457.1 million increase (to $270 million) in net unrealized capital gains, a 64.2% (or $433.0 million) increase in net income to $1.1 billion, and a reduced expense for dividends. Stockholder dividends, the largest deduction to capital and surplus, decreased 7.1% (or $48.5 million) to $635.4 million.

Cash & Liquidity

Net cash from operations for the first half of 2021 totaled $1.3 billion, an 86.6% increase compared to the same period in 2020. Cash inflows increased 48.8% to $13.4 billion driven by a 51.0% increase in net premiums collected as well as a rise of 39.1% in miscellaneous income, which was slightly offset by a 9.3% decrease in net investment income. Cash outflows increased 45.7% to $12.1 billion. While federal and foreign taxes paid increased 236.8% (or $251.9 million), a 44.7% increase in commissions, expenses paid, and aggregate write-ins for deductions was significantly higher at $3.6 billion and represented 93.5% of the increase in operating cash outflows. Acquisitions exceeded dispositions in investments, resulting in a net loss for cash from investments of $533.7 million, a sizable increase over the prior year's net loss of $23.8 million. Financing lost $696.0 million in cash, a $66.6 million improvement over the prior year's loss.

The title industry's liquidity remained strong at 64.5% as of June 30, 2021.

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The NAIC 2021 Mid-Year Property/Casualty & Title Insurance Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of June 30, 2021 and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.

