# Property & Casualty Insurance Industry

## PROPERTY & CASUALTY OVERVIEW

Near double-digit premium growth and a continuing trend of prior year reserve releases were offset by increased catastrophe losses and worsening results in personal auto. As a result, the property and casualty industry reported its first underwriting loss since 2017, totaling $(39.0) million.

Continued strong performance in investment operations with a gain of $71.1 billion and miscellaneous income of nearly $2.0 billion offset the underwriting loss and led to net income of $60.5 billion. Despite higher investment returns, the investment yield declined to 2.60%, its lowest point in eleven years.

The combination of net income and unrealized capital gains of $86.8 billion pushed policyholders' surplus to a record high of $1.1 trillion at December 31, 2021.

**Inside the Report**



**U.S. Property and Casualty Insurance Industry Results** (in millions, except for percent)

| For the year ended December 31, | YoY Chg | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Premiums Written | 9.2% | 719,815 | 658,913 | 642,984 | 621,786 | 561,952 | 537,926 | 524,006 | 506,657 | 486,462 | 465,743 |
| Net Premiums Earned | 7.4% | 693,664 | 646,014 | 630,776 | 603,188 | 549,958 | 533,236 | 515,835 | 497,931 | 476,792 | 457,906 |
| Net Losses Incurred | 12.8% | 432,474 | 383,308 | 378,582 | 366,258 | 353,954 | 323,195 | 296,749 | 284,934 | 263,576 | 283,985 |
| Loss Expenses Incurred | 1.1% | 70,638 | 69,888 | 69,244 | 64,658 | 65,218 | 61,829 | 60,932 | 58,706 | 56,951 | 56,552 |
| Underwriting Expenses | 5.3% | 189,487 | 179,964 | 173,055 | 168,228 | 151,672 | 148,692 | 145,753 | 139,846 | 136,586 | 130,809 |
| Underwrting Gain (Loss) | NM | (39) | 12,100 | 8,373 | 2,907 | (22,459) | (1,700) | 11,453 | 14,658 | 20,127 | (13,762) |
| Net Loss Ratio | 2.4 pts | 72.5% | 70.2% | 71.0% | 71.4% | 76.2% | 72.2% | 69.3% | 69.0% | 67.2% | 74.4% |
| Expense Ratio | (1.0) pts | 26.3% | 27.3% | 26.9% | 27.1% | 27.0% | 27.6% | 27.8% | 27.6% | 28.1% | 28.1% |
| Combined Ratio | 0.9 pts | 99.6% | 98.7% | 98.7% | 99.1% | 103.9% | 100.5% | 97.8% | 97.3% | 96.0% | 103.1% |
| 1yr Rsrv Devlp/PY PHS | 0.1 pts | (0.7%) | (0.8%) | (0.8%) | (1.6%) | (1.4%) | (0.7%) | (1.2%) | (1.4%) | (2.7%) | (2.2%) |
| Net Invmnt. Inc. Earned | 2.6% | 52,932 | 51,596 | 55,132 | 53,287 | 48,978 | 45,539 | 47,228 | 46,401 | 46,594 | 48,041 |
| Net Realized Gains (Loss) | 64.5% | 18,200 | 11,064 | 11,260 | 10,885 | 19,833 | 8,747 | 10,285 | 12,006 | 18,823 | 9,032 |
| Net Invmnt. Gain (Loss) | 13.5% | 71,132 | 62,660 | 66,392 | 64,172 | 68,812 | 54,286 | 57,513 | 58,407 | 65,417 | 57,073 |
| Investment Yield | (0.15) pts | 2.60% | 2.75% | 3.19% | 3.24% | 3.08% | 3.01% | 3.18% | 3.17% | 3.34% | 3.61% |
| Total Other Income | 240.0% | 3,514 | 1,034 | 1,284 | 1,530 | (4,687) | 950 | 1,475 | (2,908) | (580) | 2,305 |
| Net Income[1] | (4.9%) | 60,537 | 59,196 | 62,229 | 57,565 | 38,717 | 42,860 | 56,884 | 56,439 | 69,725 | 36,486 |
| Return on Revenue | (0.4) pts | 7.9% | 8.4% | 8.9% | 8.6% | 6.3% | 7.3% | 9.9% | 10.1% | 12.9% | 7.1% |
| December 31, | YoY Chg | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Policyholders' Surplus[2] | 12.8% | 1,077,866 | 955,136 | 891,214 | 779,921 | 786,016 | 734,026 | 705,948 | 706,740 | 686,135 | 615,809 |
| Return on Surplus | (0.5) pts | 6.0% | 6.4% | 7.4% | 7.4% | 5.1% | 6.0% | 8.1% | 8.1% | 10.7% | 6.1% |

1. Excludes investment income from affiliates. 2. Adjusted to eliminate stacking

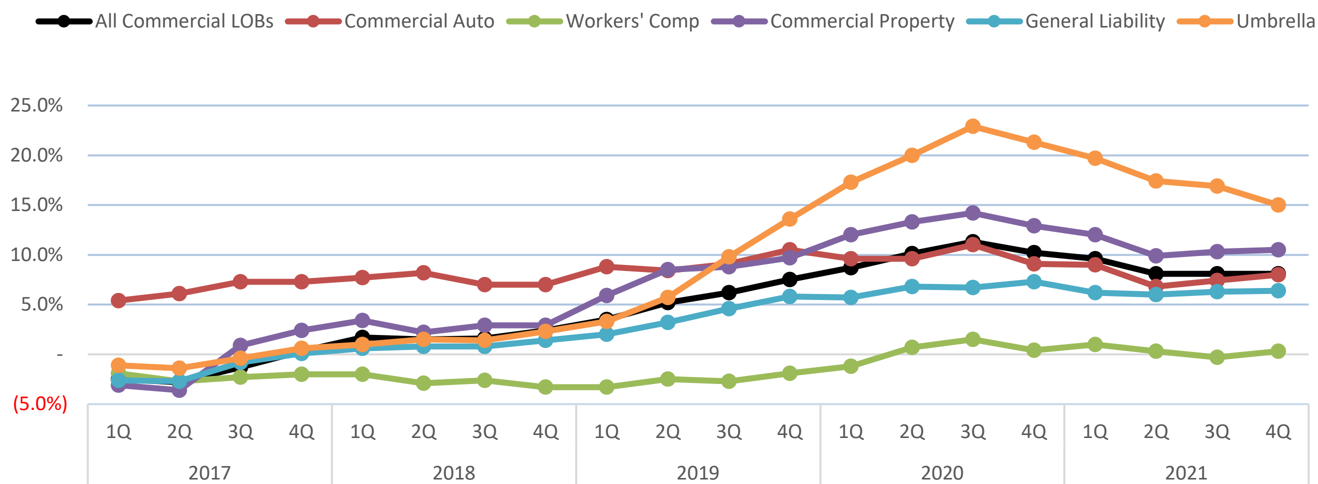
 

## MARKET CONDITIONS

### Premium Pricing

Market conditions continued to harden in most commercial products as insurers attempt to compensate for the increased frequency and severity of natural catastrophes, the low interest rate environment in recent years, and most recently, economic and social inflation. While existing carriers have increased rates and deductibles, improved market conditions have also led to several new carriers entering the space in 2021, as an increase in the number of filers shows within the chart at the bottom of this page. If this trend continues over time, it could drive rates lower as competition increases.

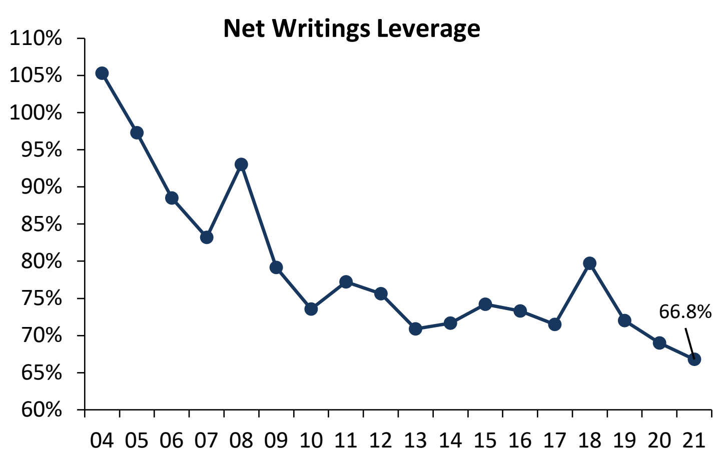
According to the Council of Insurance Agents and Brokers (CIAB) fourth quarter Market Report, commercial premium rates increased in all lines for seventeen consecutive quarters (see chart below), with the exception of workers' compensation. Further, the CIAB indicated that commercial premium rates increased by an average of 8.1% for all lines in Q4 2021, which included an 8.0% increase in commercial auto rates – marking 38 consecutive quarters of rate increases within this line. The CIAB also indicated that workers' compensation rates began increasing in the second quarter of 2020 following 21 consecutive quarters of decreasing premium rates.

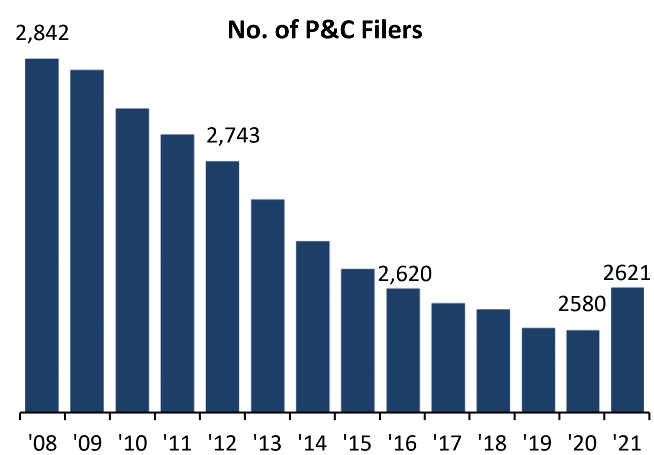



Source: The Council of Insurance Agents & Brokers, Commercial Property/Casualty Market Index – Q4/2021

### Capacity

Twenty consecutive years of industry profits have contributed to an all-time high in policyholders' surplus. As a result, industry capacity has never been more abundant as evidenced by a net writings leverage ratio of 66.8%.



## PREMIUM

Direct premiums written (DPW) in the property and casualty insurance industry rebounded from the prior year, which was impacted by Covid, increasing 9.5% year-on-year (YoY) to $797.5 billion in 2021. This represents the largest YoY increase over the past ten years, which has averaged 4.8%.

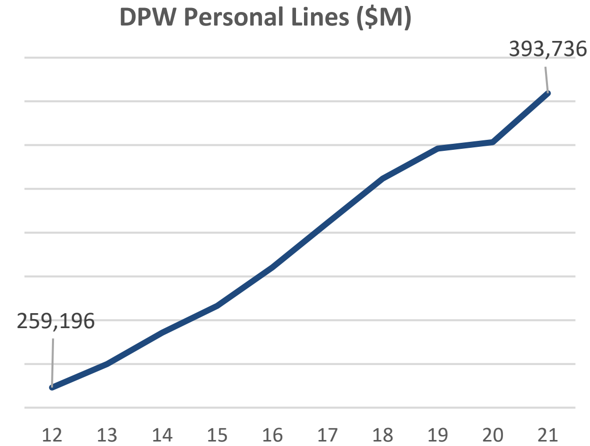
The **Personal Lines Market** represented 49.4% of total DPW and rose 6.0% due to increases in private passenger auto liability of 3.3%, a 7.3% increase in auto physical damage DPW, and an 8.4% increase in homeowners DPW as insurers continued to respond to increased catastrophe loss severity and frequency with rate increases.

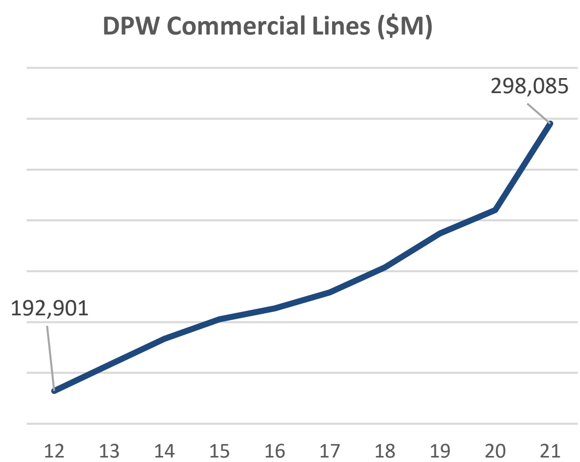
DPW in the **Commercial Lines Market** represented 37.4% of total DPW and saw a 12.9% increase during 2021. The other liability line (35.5% of commercial DPW and 13.3% of total DPW) increased 21.8% YoY as insurers continued to seek rate increases to remain competitive among rising concerns over increased claim severity, partly due to social inflation. DPW in the workers' compensation line increased 2.4% YoY to $52.2 billion, driven by quarter-over-quarter growth in the second half of the year as businesses have returned to normal. Commercial multiple peril DPW increased 7.9% and commercial auto liability, which has experienced challenges in recent years (discussed in more detail later), saw a 19.0% increase in DPW.

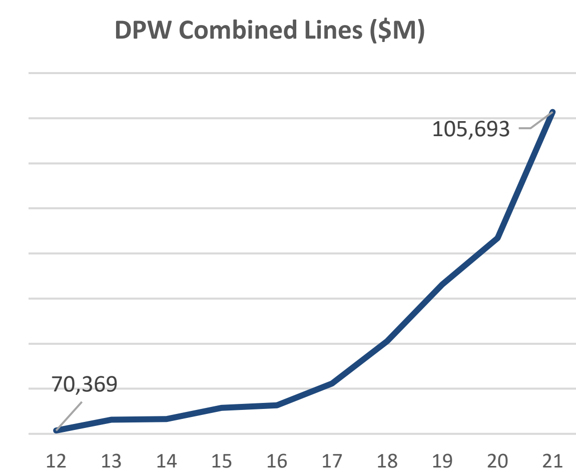
The **Combined Lines Market** represented 13.2% of total industry DPW and consists primarily of allied lines, inland marine, and fire insurance, all of which increased by double-digits. Overall, DPW in the combined lines increased 15.2% YoY.

Assumed premiums written increased 13.3% YoY to $668.2 billion, of which 88.5% was affiliated assumptions. U.S. intercompany pooling agreements comprised 58.2% of reinsured business, followed by 27.6% affiliated non-pooled business. Ceded premiums written amounted to $745.9 billion, a 13.1% increase compared to last year. Overall, net premiums written (NPW) increased 9.2% to $719.8 billion.

Geographically, premiums increased in nearly all states and territories in 2021. The table on the following page shows the change in DPW and pure direct loss ratio (PDLR) by state.



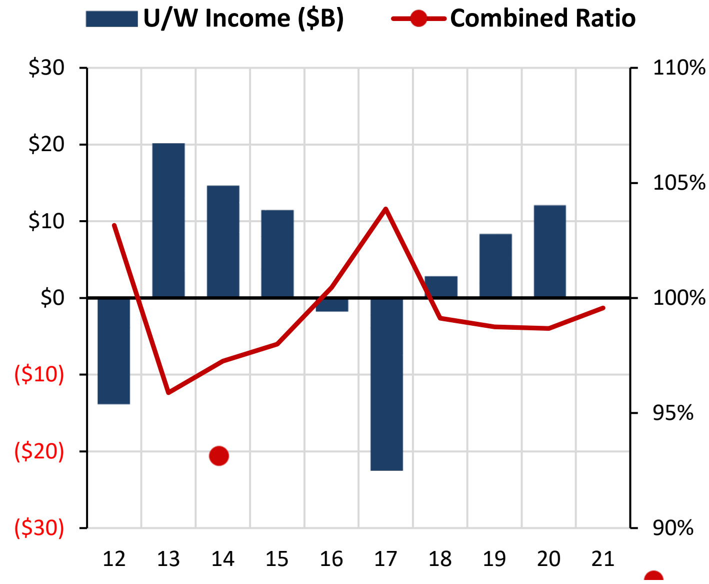
**Direct Writings & Profitability by State and Territory** (in Millions except for percent)

| State | Direct Premiums Written | | | Pure Direct Loss Ratio | | | Losses Incurred | | Premiums Earned | |
|---|---|---|---|---|---|---|---|---|---|---|
| | YoY Chg | 2021 | 2020 | YoY Chg | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| AL | 9.2% | 10,841 | 9,929 | (10.6) pts | 61.9% | 72.5% | 6,476 | 7,041 | 10,469 | 9,712 |
| AK | 3.1% | 1,711 | 1,660 | (3.2) pts | 47.8% | 51.0% | 798 | 844 | 1,670 | 1,654 |
| AR | 9.9% | 14,093 | 12,825 | 7.3 pts | 61.5% | 54.2% | 8,332 | 6,785 | 13,548 | 12,519 |
| AR | 6.3% | 6,415 | 6,036 | (2.5) pts | 64.5% | 67.0% | 4,017 | 3,910 | 6,230 | 5,838 |
| CA | 11.0% | 96,312 | 86,740 | 2.0 pts | 56.2% | 54.2% | 51,888 | 45,962 | 92,253 | 84,767 |
| CO | 10.5% | 16,368 | 14,811 | 3.0 pts | 63.1% | 60.1% | 9,876 | 8,691 | 15,649 | 14,458 |
| CT | 8.6% | 10,016 | 9,226 | 3.8 pts | 61.0% | 57.2% | 5,908 | 5,219 | 9,692 | 9,128 |
| DE | 11.8% | 3,262 | 2,918 | (8.6) pts | 52.4% | 61.0% | 1,641 | 1,775 | 3,135 | 2,911 |
| DC | 9.5% | 2,328 | 2,127 | (0.1) pts | 46.3% | 46.4% | 1,032 | 962 | 2,228 | 2,072 |
| FL | 12.0% | 66,397 | 59,277 | (4.2) pts | 60.4% | 64.6% | 37,927 | 37,141 | 62,844 | 57,538 |
| GA | 10.5% | 26,514 | 24,002 | 0.2 pts | 63.2% | 63.0% | 16,130 | 14,752 | 25,510 | 23,408 |
| HI | 8.2% | 2,891 | 2,672 | 1.1 pts | 47.0% | 46.0% | 1,310 | 1,221 | 2,786 | 2,656 |
| ID | 11.9% | 3,849 | 3,439 | 4.9 pts | 62.2% | 57.3% | 2,282 | 1,903 | 3,667 | 3,322 |
| IL | 11.1% | 30,485 | 27,432 | (5.1) pts | 57.8% | 62.9% | 16,743 | 16,902 | 28,959 | 26,858 |
| IN | 9.2% | 13,581 | 12,434 | 2.7 pts | 56.0% | 53.3% | 7,361 | 6,503 | 13,138 | 12,204 |
| IA | 14.9% | 8,055 | 7,009 | (55.1) pts | 61.7% | 116.8% | 4,815 | 8,027 | 7,807 | 6,873 |
| KS | 10.6% | 7,896 | 7,142 | 8.9 pts | 55.4% | 46.5% | 4,235 | 3,242 | 7,645 | 6,978 |
| KY | 6.8% | 8,600 | 8,049 | 15.9 pts | 68.6% | 52.6% | 5,737 | 4,210 | 8,369 | 7,999 |
| LA | 5.7% | 13,256 | 12,539 | 48.6 pts | 166.6% | 118.1% | 21,362 | 14,656 | 12,819 | 12,414 |
| ME | 8.9% | 2,771 | 2,544 | (13.3) pts | 48.0% | 61.3% | 1,285 | 1,531 | 2,674 | 2,496 |
| MD | 6.3% | 13,781 | 12,968 | 0.6 pts | 53.7% | 53.1% | 7,217 | 6,818 | 13,429 | 12,832 |
| MA | 8.9% | 18,331 | 16,839 | 0.5 pts | 48.4% | 47.9% | 8,560 | 7,889 | 17,684 | 16,468 |
| MI | 3.0% | 21,331 | 20,713 | 8.4 pts | 63.6% | 55.3% | 13,336 | 11,434 | 20,955 | 20,695 |
| MN | 9.6% | 14,037 | 12,804 | (3.0) pts | 59.1% | 62.1% | 8,028 | 7,805 | 13,593 | 12,567 |
| MS | 9.8% | 6,343 | 5,774 | (7.3) pts | 60.0% | 67.4% | 3,669 | 3,807 | 6,109 | 5,651 |
| MO | 9.1% | 14,263 | 13,077 | (4.2) pts | 58.1% | 62.3% | 8,027 | 7,964 | 13,810 | 12,782 |
| MT | 13.4% | 3,073 | 2,709 | 8.3 pts | 64.7% | 56.4% | 1,887 | 1,489 | 2,915 | 2,641 |
| NE | 11.9% | 6,073 | 5,427 | (1.3) pts | 55.3% | 56.6% | 3,263 | 3,002 | 5,896 | 5,302 |
| NV | 10.2% | 7,050 | 6,395 | 2.3 pts | 58.6% | 56.3% | 3,955 | 3,518 | 6,749 | 6,247 |
| NH | 8.2% | 2,834 | 2,620 | 2.4 pts | 45.2% | 42.7% | 1,245 | 1,110 | 2,756 | 2,598 |
| NJ | 8.4% | 24,785 | 22,872 | 8.7 pts | 65.8% | 57.1% | 15,771 | 12,940 | 23,982 | 22,659 |
| NM | 6.7% | 4,041 | 3,787 | 7.2 pts | 59.4% | 52.2% | 2,328 | 1,944 | 3,920 | 3,727 |
| NY | 9.7% | 55,034 | 50,150 | (0.1) pts | 61.6% | 61.7% | 32,545 | 30,443 | 52,792 | 49,312 |
| NC | 8.9% | 19,677 | 18,073 | 3.4 pts | 58.4% | 54.9% | 11,080 | 9,717 | 18,987 | 17,688 |
| ND | 12.8% | 2,991 | 2,651 | 17.8 pts | 92.0% | 74.2% | 2,688 | 1,955 | 2,923 | 2,636 |
| OH | 8.2% | 19,747 | 18,247 | (0.3) pts | 53.6% | 53.9% | 10,216 | 9,649 | 19,077 | 17,908 |
| OK | 7.5% | 9,354 | 8,699 | 6.4 pts | 62.4% | 56.0% | 5,645 | 4,808 | 9,044 | 8,586 |
| OR | 8.5% | 8,533 | 7,864 | (16.7) pts | 59.9% | 76.7% | 4,951 | 5,929 | 8,259 | 7,735 |
| PA | 7.3% | 28,340 | 26,422 | 1.3 pts | 58.3% | 57.0% | 15,997 | 14,925 | 27,433 | 26,164 |
| RI | 7.4% | 2,880 | 2,682 | 2.3 pts | 54.9% | 52.5% | 1,553 | 1,393 | 2,831 | 2,651 |
| SC | 8.7% | 12,103 | 11,134 | (2.7) pts | 55.7% | 58.4% | 6,518 | 6,375 | 11,697 | 10,911 |
| SD | 16.9% | 3,049 | 2,609 | (10.4) pts | 65.2% | 75.6% | 1,931 | 1,938 | 2,960 | 2,563 |
| TN | 8.9% | 14,200 | 13,038 | (13.2) pts | 59.4% | 72.7% | 8,133 | 9,245 | 13,688 | 12,723 |
| TX | 10.7% | 70,749 | 63,931 | 20.2 pts | 79.0% | 58.8% | 53,345 | 36,659 | 67,520 | 62,326 |
| UT | 11.0% | 6,344 | 5,715 | (7.7) pts | 55.8% | 63.5% | 3,374 | 3,511 | 6,044 | 5,530 |
| VT | (6.0%) | 1,417 | 1,508 | 3.4 pts | 45.1% | 41.7% | 625 | 622 | 1,386 | 1,489 |
| VA | 8.0% | 16,597 | 15,361 | 2.5 pts | 53.7% | 51.2% | 8,651 | 7,730 | 16,115 | 15,105 |
| WA | 9.3% | 15,263 | 13,970 | 7.8 pts | 62.1% | 54.3% | 9,121 | 7,453 | 14,699 | 13,732 |
| WV | 4.9% | 3,141 | 2,994 | 7.4 pts | 54.1% | 46.7% | 1,669 | 1,415 | 3,084 | 3,029 |
| WI | 7.2% | 12,160 | 11,348 | 3.8 pts | 54.1% | 50.4% | 6,426 | 5,626 | 11,871 | 11,171 |
| WY | 9.8% | 1,457 | 1,326 | (12.6) pts | 46.3% | 59.0% | 643 | 763 | 1,388 | 1,295 |
| AS | (72.3%) | 0 | 0 | (131.1) pts | (117.6%) | 13.5% | (0) | 0 | 0 | 0 |
| GU | (0.4%) | 316 | 318 | 6.4 pts | 50.1% | 43.7% | 153 | 135 | 305 | 309 |
| PR | 5.3% | 2,599 | 2,467 | (55.1) pts | 11.6% | 66.7% | 288 | 1,600 | 2,492 | 2,401 |
| VI | (9.4%) | 176 | 194 | 25.6 pts | 27.3% | 1.7% | 51 | 3 | 186 | 183 |
| MP | (1.7%) | 22 | 22 | 129.0 pts | 186.1% | 57.1% | 38 | 13 | 20 | 22 |
| **Totals** | **9.5%** | **797,532** | **728,174** | **2.6 pts** | **62.2%** | **59.6%** | **477,165** | **425,385** | **767,008** | **713,504** |

## UNDERWRITING OPERATIONS

Following three consecutive years of underwriting gains, the property and casualty insurance industry reported an underwriting loss of $39.0 million for 2021. The underwriting loss came despite a 7.4% increase in net premiums earned, however, net losses and Loss Adjustment Expense (LAE) incurred increased 11.0% primarily due to higher catastrophe losses and worsening results in personal auto. Although underwriting expenses increased, the expense ratio was 1.0-point lower than last year due to the growth in net premiums written. Overall, the combined ratio worsened by nearly 1.0-point to 99.6% (72.5% net loss ratio and 27.3% expense ratio).




**Catastrophes**

According to the National Centers for Environmental Information, National Oceanic and Atmospheric Administration (NOAA), there were 20 weather/climate disaster events with total losses of more than $1 billion in the U.S. in 2021. These events included 11 severe storms, 4 tropical cyclones, 2 floods, 1 wildfire event, and 1 winter storm. Overall costs for these events were $148.0 billion. The costliest events are discussed below.

<u>Tropical Cyclones</u> – Overall costs of tropical cyclones were roughly $80.2 billion. Hurricane Ida, the costliest natural disaster in 2021, with overall losses estimated at $65.0 billion, made landfall as a category 4 storm in Louisiana.

<u>Severe Storms</u> – There were 11 severe storms with an overall cost of $20.8 billion in 2021. The most significant event occurred in September in the central and southeastern regions of the U.S. Several reports indicated that dozens of tornadoes with wind speeds of up to 190 miles per hour impacted six states, with Kentucky receiving the most damage. The city of Mayfield was hardest hit when an EF4 tornado destroyed large parts of the city. Overall losses totaled roughly $5 billion for this event.

<u>Winter Storm</u> – In February, a cold wave brought freezing temperatures and record snowfall in the central U.S., impacting areas as far south as Houston, Texas. Texas was primarily impacted as the state's energy, infrastructure, and buildings were inadequately prepared for such conditions. Snow and ice also caused widespread road closures, leaving thousands of people stranded. This event caused roughly $24.5 billion in overall losses.

The annual average of $1 billion dollar events from 1980 to 2021 is 7.7 events. The annual average for the most recent 5 years is 17.8 events (CPI-adjusted). Since 1980 the U.S. has sustained a total of 323 events where overall costs reached or exceeded $1 billion. The table below shows the distribution of damage from U.S. billion-dollar disasters by time period.

| Time Period | Billion Dollar Disasters | Events per Year | Overall Cost |
|---|---|---|---|
| 1980-1989 | 31 | 3.1 | $195.2B |
| 1990-1999 | 55 | 5.5 | $298.4B |
| 2000-2009 | 67 | 6.7 | $558.0B |
| 2010-2019 | 128 | 12.8 | $891.5B |
| Last 5 yrs. (2017-2021) | 89 | 17.8 | $764.9B |
| Last 3 yrs. (2019-2021) | 56 | 18.7 | $306.6B |
| 2021 | 20 | 20.0 | $148.0B |

Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2022). https://www.ncei.noaa.gov/access/billions/, DOI: 10.25921/stkw-7w73

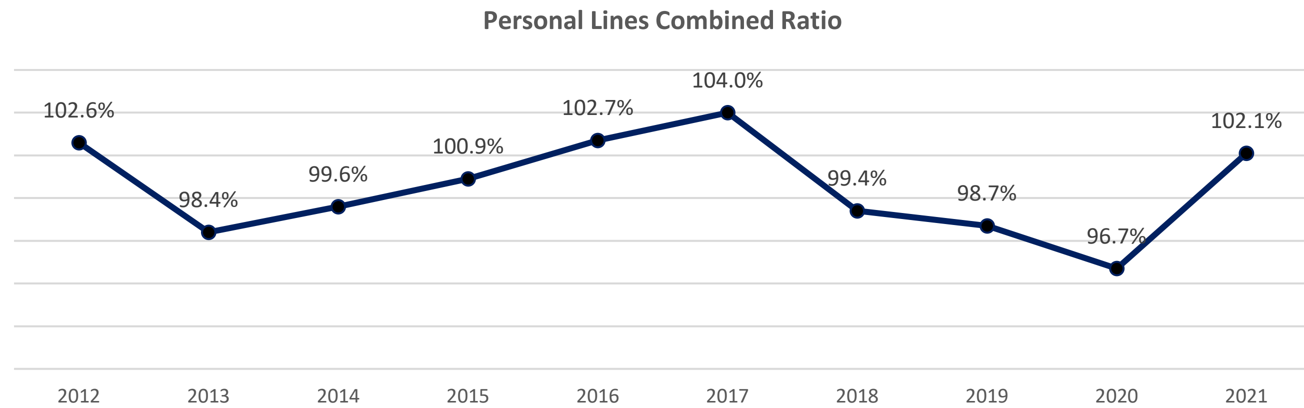
 

<u>Impact to States</u>: The table to the right shows the deterioration in the PDLR in the states primarily impacted by the largest natural disasters in 2021

| State | Chg. In PDLR | PDLR 2021 | PDLR 2020 |
|---|---|---|---|
| LA | 48.6-pts | 166.6% | 118.1% |
| KY | 15.9-pts. | 68.6% | 52.6% |
| TX | 20.2-pts. | 79.0% | 58.8% |
| NJ | 8.7-pts. | 65.8% | 57.1% |

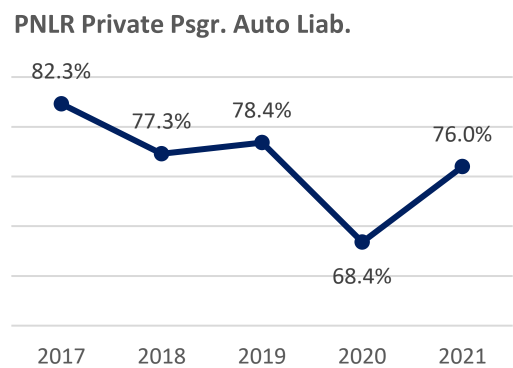
**Personal Lines Market**

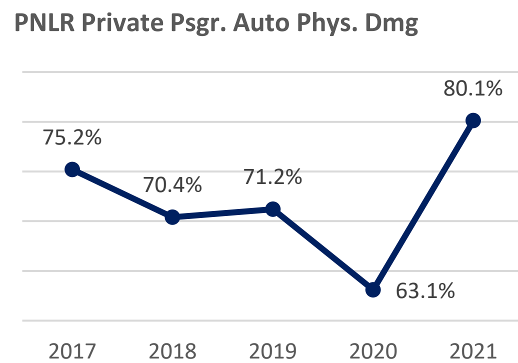
The personal lines market comprised half of industry premiums in 2021 and experienced a downturn in operating results due to the increase in natural catastrophes noted above, and a deterioration in personal auto results. The combined ratio worsened 5.5-points to 102.1%.




<u>Personal Auto</u>

In 2021, business activity returned to normal levels following the 2020 COVID-19 shutdowns that resulted in less driving and auto claims activity. However, during 2021 results normalized as claims activity returned to typical frequency compounded by inflation and supply chain issues that boosted the cost of claims. Overall, net losses incurred totaled $95.4 billion for the private passenger auto liability line versus $81.4 billion in 2020. Private passenger auto physical damage net losses incurred increased 35.7% YoY to $73.8 billion.



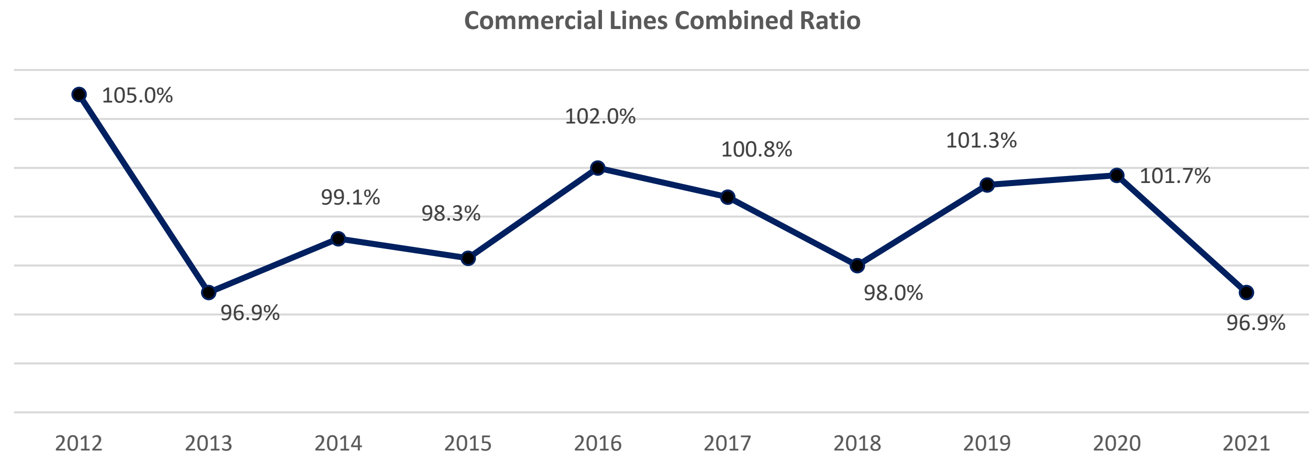

As seen in the charts above, the pure net loss ratio (PNLR) in private passenger auto liability (20.6% of total NPW in 2021) worsened 7.6-percentage points to 76.0%, while private passenger auto physical damage (14.5% of total NPW) saw a 17.0-percentage point deterioration to 80.1%.

<u>Homeowners</u>

While results slightly improved, the homeowners line was unprofitable again in 2021 with a combined ratio of 103.8%, down from 107.4% in 2020. In recent years, an increase in frequency and severity of natural catastrophes placed pressure on homeowners profitability, with underwriting losses in four of the last five years. While many insurers have raised premiums in response to the increase in natural disasters, inflation has been the latest headwind for the industry, as the price of building materials, labor, and fuel has been on the rise.

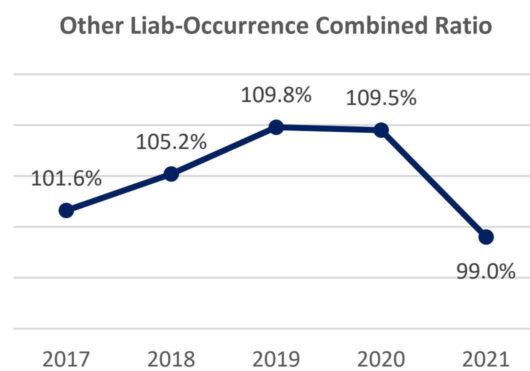
**Commercial Lines Market**

Overall, commercial lines performed better in 2021 as evidenced by a combined ratio of 96.9%, as seen in the chart below. Increased pricing in the commercial market provided a boost to insurers' bottom lines. However, certain liability lines continued to face challenges, as many had combined ratios over 100 percent. The largest liability lines of business in the commercial market are discussed in more detail below:



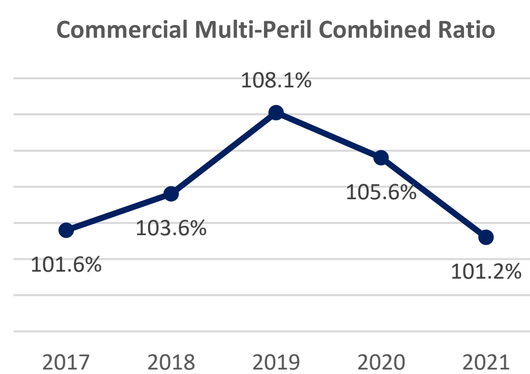

Other Liability-Occurrence

Various types of coverage fall within the other liability line, including, professional, environmental, general liability, directors and officers (D&O), and employers' liability. Loss costs have trended upward in recent years primarily due to adverse development of prior accident year reserves and rising costs due to social inflation. D&O liability saw a 13.0% increase in premium rates according to the CIAB report, the second highest premium increase among all commercial lines behind umbrella, likely due to higher incurred losses which have increased 76.8% over the past five years. Overall, the combined ratio for the other liability-occurrence line was 99.0%, the first year since 2013 it was below 100 percent.




Commercial Multiple Peril (Liability Portion)

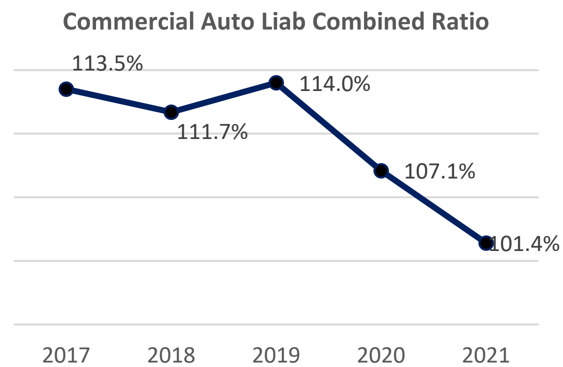
Commercial multiple peril covers a variety of risk exposures including, but not limited to, fire, allied lines, difference in conditions, and various liability coverages. The combined ratio for the non-liability portion improved 2.9-points to 109.2% in 2021. Results in the liability portion of commercial multiple peril improved slightly, evidenced by a 4.4-point improvement in the combined ratio to 101.2%. Despite the slight YoY improvement, this line has been unprofitable for six consecutive years and nine out of the last eleven years. Litigation trends have been largely to blame for the trend in poor results.



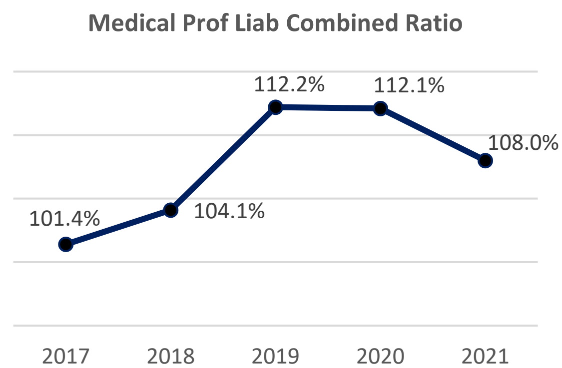
Commercial Auto Liability

A trend of underwriting losses within the commercial auto liability space continued, a trend that began in 2011. Adverse development of prior accident year reserves and a sharp rise in nuclear verdicts have contributed to the negative trend. Insurers have increased rates each quarter for 38 consecutive quarters, according to the CIAB (see CIAB report on page 2). The combined ratio for the current year was 101.4%, a small improvement compared to 107.1% for 2020.



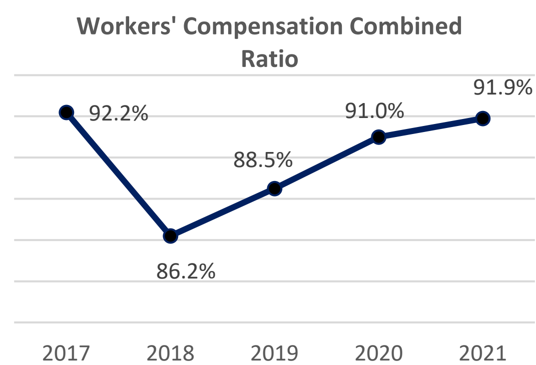

Medical Professional Liability

Medical professional liability insurance protects physicians and health care professionals from liability associated with wrongful practices that result in bodily injury, medical expenses, and property damage. It also covers the cost of legal fees to defend an insured, and judgements or settlements resulting from claims and lawsuits. This line of business has generated poor underwriting results for eight consecutive years due to a trend of rising loss costs and diminishing prior year reserve takedowns. For the current year, the growth in net premiums earned increased at a greater rate than net losses incurred, resulting in a small improvement in the combined ratio to 108.0%.




Workers' Compensation

Workers' compensation is the second largest commercial line at 6.2% of total net premiums written in 2021 and has seen eight consecutive years of underwriting profits due, in large part, to the release of prior accident year reserves. As a result, market conditions have been soft, as average premium pricing decreased each quarter from 1Q-2015 to 1Q-2020 and has recently been flat (as noted on page 2). While workers' compensation remained profitable in 2021, a slight deterioration was noted as the combined ratio worsened 0.9-points to 91.9%. In addition, the accident year loss ratio has increased each year since 2016 to 76% for the 2021 accident year. Overall, the profitable trend within this line is largely due to prior year reserve releases.



## Combined Ratio by Lines of Business

| Lines of Business | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Aggregate Write-ins | 116.7% | 108.7% | 76.2% | 81.1% | 41.2% | 83.5% | 83.7% | 125.4% | 64.0% | 56.3% |
| Aircraft (all perils) | 90.9% | 107.0% | 131.2% | 111.5% | 109.2% | 113.1% | 100.7% | 89.1% | 99.5% | 98.5% |
| Allied Lines | 104.6% | 112.5% | 105.0% | 130.7% | 182.0% | 96.6% | 88.1% | 85.4% | 85.3% | 129.9% |
| Boiler and Machinery | 71.5% | 85.9% | 72.8% | 86.3% | 76.5% | 78.8% | 69.9% | 76.1% | 72.4% | 80.1% |
| Burglary and Theft | 86.6% | 113.8% | 74.2% | 78.1% | 49.1% | 46.2% | 61.4% | 59.9% | 42.2% | 58.6% |
| Commercial Auto Liab | 101.4% | 107.1% | 114.0% | 111.7% | 113.5% | 113.2% | 111.3% | 103.6% | 107.5% | 106.3% |
| Commercial Auto Phy Dmg | 90.2% | 85.3% | 95.5% | 97.0% | 104.2% | 102.0% | 100.9% | 103.1% | 104.9% | 109.1% |
| Commercial MP (Liab) | 101.2% | 105.6% | 108.1% | 103.6% | 101.6% | 105.6% | 99.3% | 103.5% | 103.0% | 94.1% |
| Commercial MP (Non-Liab) | 109.2% | 112.1% | 103.1% | 108.4% | 111.8% | 99.1% | 91.9% | 97.1% | 94.4% | 114.6% |
| Credit | 78.1% | 108.2% | 84.9% | 93.6% | 90.8% | 92.1% | 76.5% | 74.7% | 74.9% | 91.3% |
| Credit A & H | 95.5% | 106.5% | 86.7% | 84.8% | 128.3% | 120.9% | 42.3% | 45.2% | 45.0% | 49.5% |
| Earthquake | 36.8% | 37.2% | 28.7% | 44.6% | 43.6% | 33.9% | 28.5% | 34.3% | 30.5% | 36.7% |
| Excess Workers' Comp | 105.2% | 89.4% | 113.8% | 116.6% | 123.6% | 109.2% | 112.0% | 107.4% | 69.3% | 151.4% |
| Farmowners MP | 97.2% | 106.2% | 99.3% | 97.0% | 105.7% | 91.1% | 89.9% | 95.4% | 94.0% | 99.5% |
| Fidelity | 65.8% | 78.8% | 90.6% | 73.4% | 74.0% | 78.4% | 77.2% | 92.7% | 92.9% | 99.3% |
| Financial Guaranty | 46.8% | 246.3% | 181.7% | 130.5% | 320.1% | 177.2% | 99.2% | 91.3% | (3.4%) | 181.2% |
| Fire | 105.9% | 103.7% | 95.8% | 110.8% | 119.2% | 92.3% | 85.1% | 85.4% | 78.5% | 86.5% |
| Group A & H | 94.8% | 92.2% | 97.8% | 90.7% | 90.5% | 98.4% | 100.1% | 96.9% | 99.9% | 94.1% |
| Homeowners MP | 103.8% | 107.4% | 98.6% | 104.1% | 107.8% | 93.4% | 92.1% | 92.7% | 90.3% | 104.0% |
| Inland Marine | 86.9% | 97.5% | 86.5% | 86.4% | 90.0% | 84.0% | 83.9% | 83.5% | 83.8% | 96.2% |
| International | 107.9% | 106.7% | 153.4% | 145.3% | 130.7% | 144.3% | 2.0% | 116.7% | 92.6% | 91.5% |
| Medical Prof Liab | 108.0% | 112.1% | 112.2% | 104.1% | 101.4% | 106.4% | 102.3% | 104.7% | 89.4% | 93.3% |
| Mortgage Guaranty | 31.5% | 62.8% | 32.8% | 29.2% | 40.4% | 49.8% | 58.1% | 70.2% | 98.0% | 189.7% |
| Multiple Peril Crop | 94.9% | 100.3% | 108.6% | 85.0% | 84.1% | 81.7% | 99.9% | 104.9% | 103.3% | 104.0% |
| Ocean Marine | 100.7% | 98.0% | 105.2% | 100.2% | 110.5% | 95.8% | 94.7% | 91.2% | 98.1% | 109.2% |
| Other A & H | 111.8% | 98.4% | 128.0% | 149.6% | 133.1% | 128.6% | 132.0% | 126.6% | 132.5% | 133.0% |
| Other Liab - Claims-Made | 93.7% | 100.4% | 97.6% | 91.0% | 98.9% | 103.4% | 98.6% | 88.1% | 97.4% | 100.4% |
| Other Liab - Occur | 99.0% | 109.5% | 109.8% | 105.2% | 101.6% | 114.9% | 103.3% | 101.5% | 96.4% | 104.9% |
| Private Crop | 122.0% | 148.3% | 117.5% | 126.9% | 107.5% | 122.3% | 146.2% | 138.8% | NA | NA |
| Private flood | 65.0% | 50.6% | 59.6% | 55.0% | 186.2% | 93.1% | NA | NA | NA | NA |
| Products Liability | 100.5% | 87.9% | 108.6% | 122.9% | 102.1% | 119.8% | 130.6% | 134.4% | 155.2% | 102.2% |
| Prvt Psgr Auto Liab | 99.8% | 94.8% | 101.6% | 100.4% | 105.5% | 109.5% | 107.9% | 103.8% | 103.5% | 103.2% |
| Prvt Psgr Auto Phy Dmg | 103.9% | 89.2% | 94.6% | 93.6% | 98.2% | 101.7% | 99.5% | 100.3% | 98.7% | 100.2% |
| Reinsurance-Nonproportional | 108.2% | 101.2% | 98.1% | 109.1% | 122.8% | 78.6% | 72.3% | 63.2% | 72.9% | 79.8% |
| Surety | 69.6% | 79.4% | 71.3% | 70.9% | 72.2% | 72.4% | 73.8% | 69.3% | 72.7% | 76.8% |
| Warranty | 87.7% | 84.1% | 104.8% | 95.4% | 90.6% | 88.8% | 107.9% | 93.5% | 104.2% | 99.5% |
| Workers' Comp | 91.9% | 91.0% | 88.5% | 86.2% | 92.2% | 95.4% | 95.9% | 102.6% | 98.8% | 111.2% |

NA = Not Available

Note: Federal Flood is not shown due to negative combined ratio results

## INVESTMENT OPERATIONS

Net investment income rebounded from a periodic downturn last year driven by the pandemic. Net investment gains increased 13.5% to $71.1 billion versus $62.7 billion last year. Realized capital gains jumped 64.5% to $18.2 billion, as gains on unaffiliated common stocks more than doubled to $14.3 billion and gains on affiliated common stocks were $800.9 million versus losses of $1.4 billion last year. The industry reported a $3.9 billion realized gain from bonds, down 40.1% from last year as gains from U.S. Government bonds were down 97.3% to $83.2 million. Further, gains on other invested assets were down 35.7% to $2.6 billion. Net investment income earned increased 2.6% YoY to $52.9 billion. Investment income earned was primarily derived from bonds at 50.4% of the total, while stocks comprised 25.9%, and other invested assets 18.0%. Despite the continued solid investment results, investment yield continued its downward trend to 2.60% versus 2.75% last year.

Bonds continued to comprise the majority of cash and invested assets accounting for 48.6% of the total at December 31, 2021. However, the low interest rate environment has pressured insurers to seek investment gains through more risky investments. The industry's cash and invested assets composition is shown in the chart to the right.

## NET INCOME

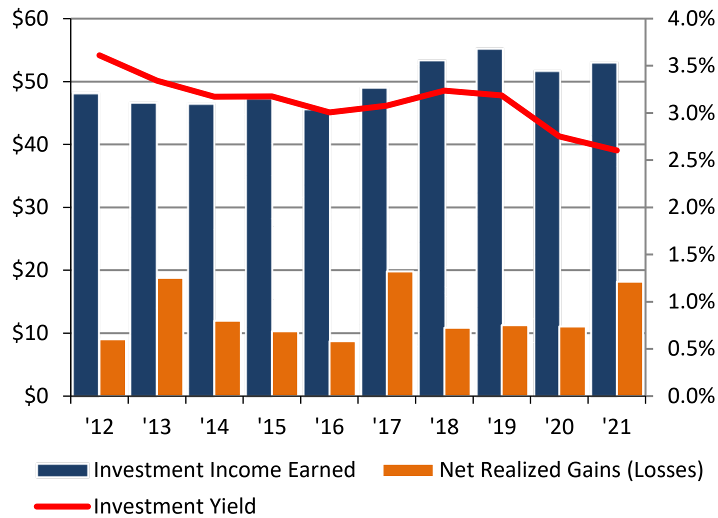
The property and casualty insurance industry reported net income of $60.5 billion for the year, a 2.3% improvement compared to last year, primarily driven by the above-mentioned $71.1 billion in investment gains.

Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was slightly lower at 7.9% versus 8.4% for the prior year.

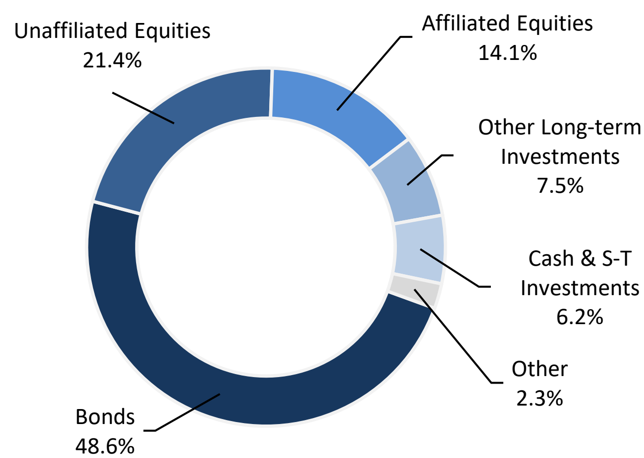
## CASH & LIQUIDITY

Net cash provided by operating activities increased 25.8% to $124.3 billion. Premiums collected net of reinsurance rose 9.1% to $713.1 billion, leading to an 8.7% increase in operating cash inflows. Benefit and loss related payments rose 8.0% to $378.7 billion and policyholder dividends decreased 43.7% or $3.6 billion

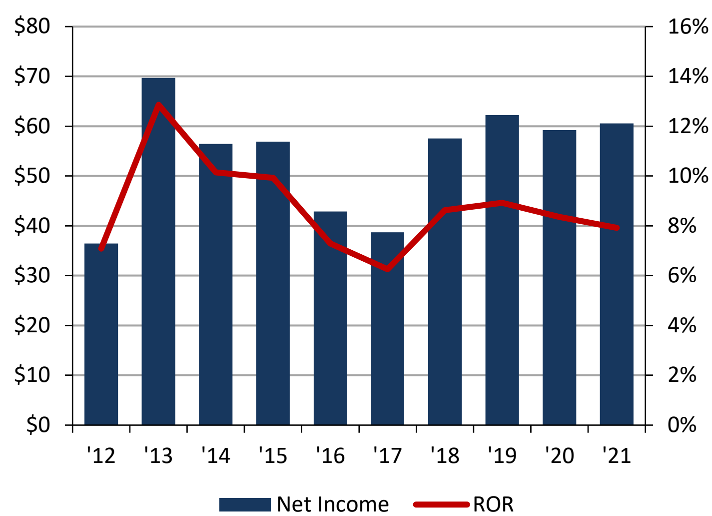
**Investment Income ($B)**




**Cash & Invested Assets at Dec. 31, 2021**




**Profitability ($B)**



*Cash and Liquidity, Continued…*

to $4.6 billion. Overall, cash outflows were 5.9% or $36.2 billion higher than 2020.

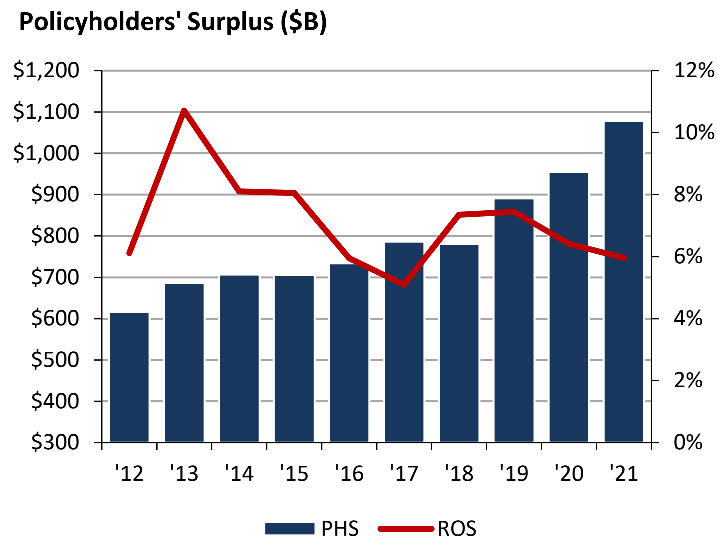
The industry liquidity ratio improved 2.0-points to 75.2% since the prior year end. Liquid assets increased 14.8% while adjusted liabilities increased at a lesser pace of 11.9%.

## CAPITAL & SURPLUS

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 12.8% to an all-time high of $1.1 trillion at December 31, 2021 versus $955.1 billion at the prior year end.

Twenty consecutive years of industry profits have fueled growth in surplus as this figure has increased 275.0% since 2002. Along with net income, adjusted unrealized gains of $86.8 billion boosted surplus for the current year.

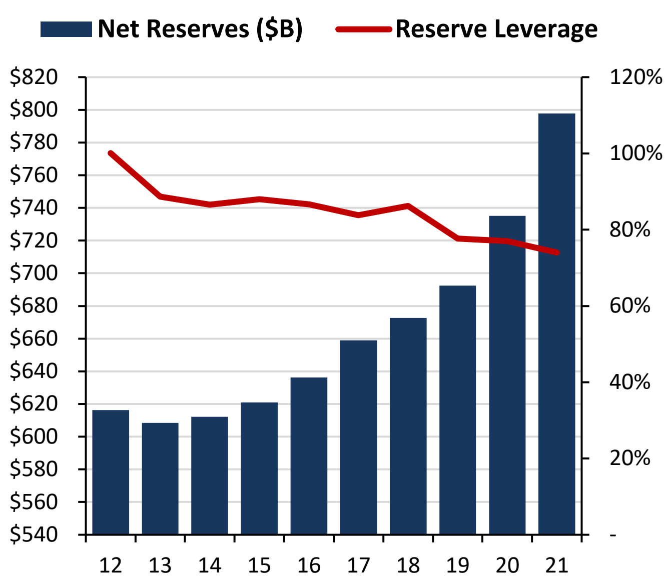
Return on surplus—a measure of net income to average policyholders' surplus—was 0.4-points lower than last year at 6.0%.

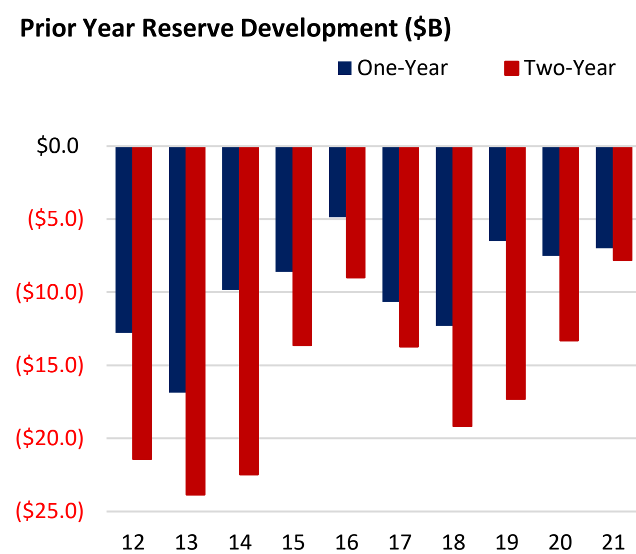


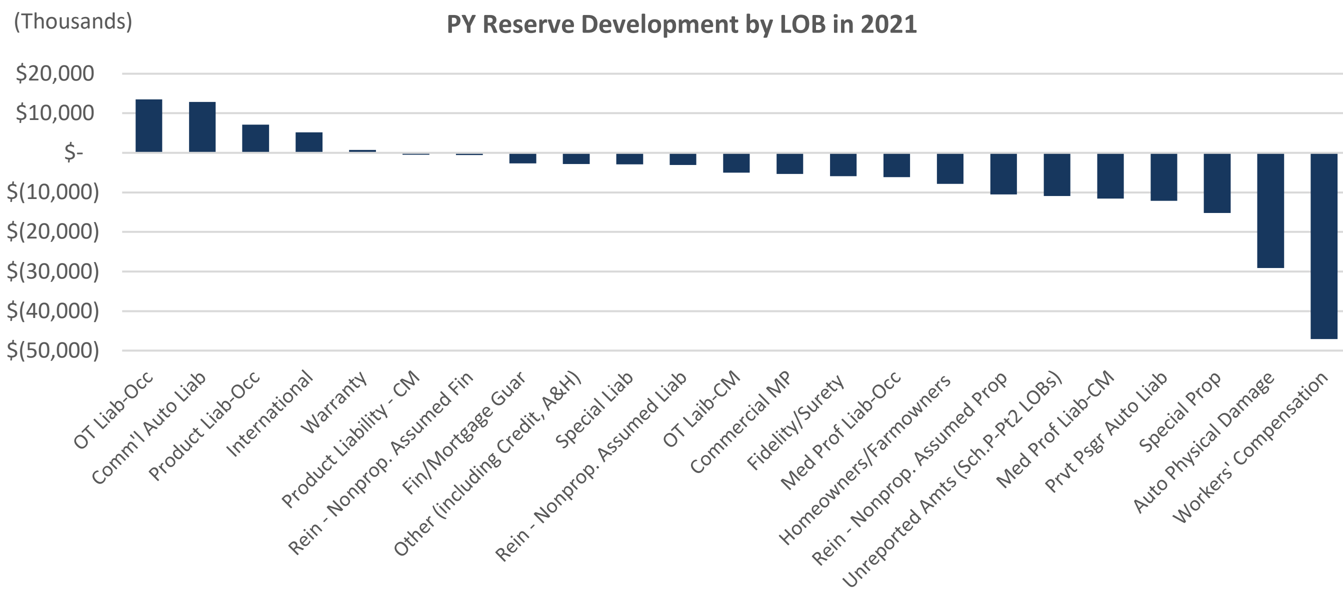

## LOSS & LAE RESERVES

Total Loss and LAE reserves increased 8.5% to $797.7 billion and was comprised of $665.2 billion unpaid losses and $132.5 billion unpaid LAE. Reserve leverage improved 3.0-points to 74.0% compared to 77.0% at the prior year-end.

The trend of favorable prior year reserve development continued with a one-year redundancy of $7.0 billion and a two-year redundancy of $7.8 billion. Current market conditions, which have prompted insurers to increase rates, particularly in the commercial market, have offset concerns from recent rising economic and social inflation. However, prolonged inflation could impact the accuracy of reserves.






## REINSURANCE

The following table is a snapshot of the insurance industry's professional reinsurers, or those insurers that account for 75% of the industry's unaffiliated assumptions.

**Professional Reinsurers Financial Snapshot** *(in millions, except for percent)*

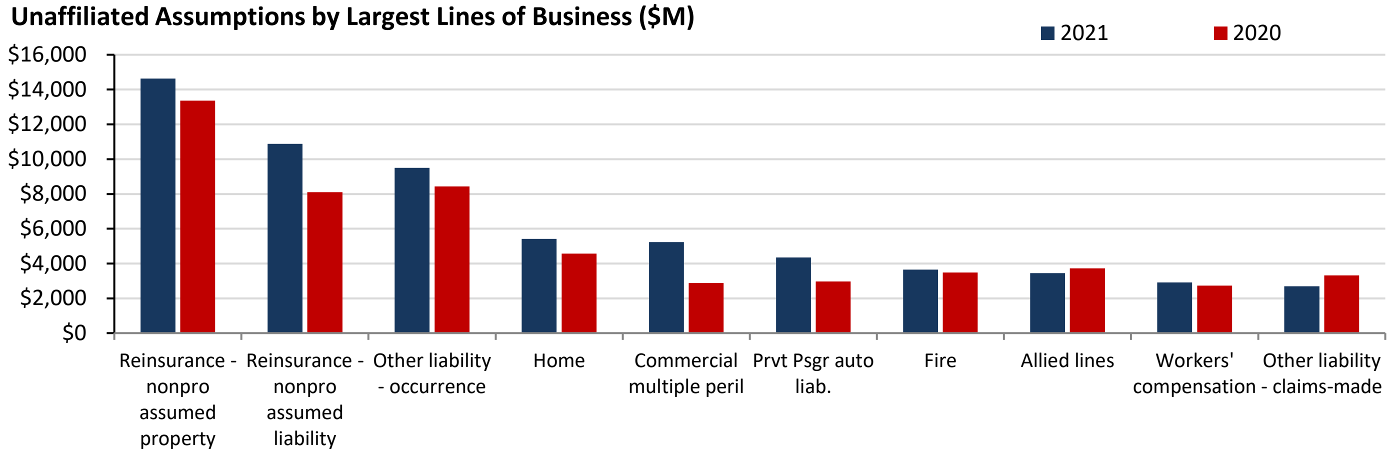
| For the year ended December 31, | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Unaffiliated APW | 57,973 | 56,827 | 44,083 | 39,369 | 37,342 | 36,487 | 36,432 | 35,869 | 34,514 | 35,883 |
| Net Premiums Written | 135,830 | 100,393 | 97,665 | 102,364 | 78,930 | 73,687 | 78,029 | 86,744 | 64,407 | 55,497 |
| Net Premiums Earned | 129,328 | 96,084 | 95,537 | 96,362 | 73,471 | 72,117 | 75,213 | 82,367 | 60,604 | 54,927 |
| Net Losses Incurred | 84,049 | 62,887 | 60,662 | 64,632 | 52,949 | 43,799 | 42,049 | 47,613 | 30,774 | 36,730 |
| Loss Expenses Incurred | 11,033 | 8,997 | 9,225 | 9,165 | 7,197 | 6,953 | 7,815 | 8,903 | 6,009 | 5,916 |
| Underwriting Expenses | 34,382 | 26,446 | 26,438 | 27,725 | 21,196 | 20,816 | 21,631 | 21,801 | 19,205 | 15,688 |
| Underwriting Gain (Loss) | (165) | (2,260) | (765) | (5,065) | (7,867) | 528 | 3,697 | 4,096 | 4,619 | (3,405) |
| Net Loss Ratio | 73.5% | 74.8% | 73.2% | 76.6% | 81.9% | 70.4% | 66.3% | 68.6% | 60.7% | 77.6% |
| Expense Ratio | 25.3% | 26.3% | 27.1% | 27.1% | 26.9% | 28.2% | 27.7% | 25.1% | 29.8% | 28.3% |
| Combined Ratio | 98.8% | 101.2% | 100.2% | 103.7% | 108.7% | 98.6% | 94.1% | 93.8% | 90.6% | 106.0% |
| Net Investment. Inc. Earned | 13,417 | 12,966 | 14,720 | 17,021 | 12,587 | 11,794 | 13,087 | 19,503 | 15,699 | 13,846 |
| Net Realized Gains (Loss) | 3,074 | 5,810 | 3,464 | 2,423 | 2,875 | 2,443 | 2,142 | 3,219 | 10,081 | 521 |
| Net Investment. Gain (Loss) | 16,491 | 18,776 | 18,184 | 19,443 | 15,462 | 14,237 | 15,229 | 22,722 | 25,780 | 14,368 |
| Investment Profit Ratio | 12.8% | 19.5% | 19.0% | 20.2% | 21.0% | 19.7% | 20.2% | 27.6% | 42.5% | 26.2% |
| Net Income | 15,005 | 16,119 | 15,324 | 13,584 | 1,055 | 13,283 | 16,010 | 21,120 | 26,625 | 9,617 |
| Return on Revenue | 10.3% | 14.0% | 13.5% | 11.7% | 1.2% | 15.4% | 17.7% | 20.1% | 30.8% | 13.9% |

Assumed premiums written in the property and casualty industry totaled $668.2 billion, a 13.3% increase compared to $590.0 billion in 2020. Affiliated assumptions totaled $591.6 billion and unaffiliated totaled $76.6 billion. The professional reinsurance market consists of the reinsurers that comprise 75% of the total unaffiliated assumptions. In 2021, 25 reinsurers assumed $58.0 billion in premiums. As seen in the table on the previous page, underwriting results within the professional reinsurance market have been negative for five consecutive years, primarily due to the increase in frequency and severity of natural catastrophes in recent years. For the current year the underwriting loss totaled $165 million versus $2.3 billion last year. The combined ratio improved 2.4-points to 98.8%. Strong investment returns and total other income of $1.1 billion (mostly due to a large retroactive reinsurance gain from one reinsurer) resulted in net income of $15.0 billion, a decrease of $1.1 billion compared to last year.

The reinsurance market has hardened recently, particularly for loss-impacted property lines due to elevated catastrophe loss activity. In addition, lower investment returns, and most recently, a trend of increasing loss severity in liability lines, have caused reinsurers to increase rates.

**Unaffiliated Assumptions by Largest Lines of Business ($M)**




## EMERGING RISKS

### Social Inflation

Social inflation is a term used to describe the potential for rising insurance claim costs resulting from increased litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards. Social inflation has the potential to emerge through both traditional product liability exposures (e.g., asbestos or opioids) as well as behavioral liability exposures (e.g., breach of privacy, sexual misconduct, or corporate misconduct). In addition, social inflation exposures can emerge under various lines of coverage (e.g., general liability, products liability, or workers' compensation).

Emerging prevalence of litigation financing firms, whereby third-party capital is now being made available to finance the pursuit of class-action and mass tort lawsuits is considered the primary driver of social inflation. Hedge fund managers now see multibillion-dollar lawsuits as valuable investments as legal fund investment units are popping up within hedge funds. Third party litigation finance totaled $17 billion in 2021 according to a December 2021 Swiss Re report, *U.S. Litigation Funding and Social Inflation*. In addition, a recent study produced by the Insurance Information Institute and the Casualty Actuarial Society found that social inflation increased claims for commercial auto liability by over $20 billion between 2010 and 2019, which represented a 14% increase above projected losses.

Supporters of third-party financing believe it is a way to create equity and fairness and balance the interests between consumers and insurance companies. Insurers claim that shock verdicts have led to reduced liability coverage and higher pricing in the liability market and have called for government and regulatory assistance to put controls in place, including transparency about litigation funding programs.

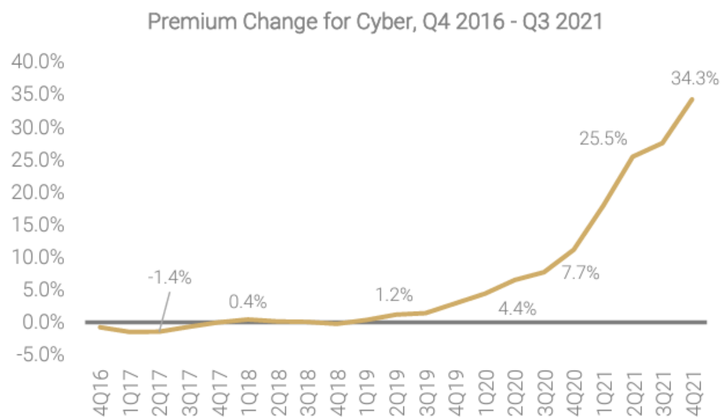
 

**Economic Inflation**

The U.S. economy has shown signs of rising inflation, with various measures spiking to their highest levels in over forty years. Rising economic inflation in recent months has had impact on loss costs, which could impact reserve adequacy and underwriting profitability for many lines of business. This has been more evident in property coverages as supply chain issues have led to higher costs for building materials, replacement parts, and labor. In addition, rising inflation has the potential to impact the value of a wide range of assets held by insurers, particularly fixed income holdings that are not able to be held to maturity. Finally, inflation has the potential to lead to rapidly rising interest rates, which could drive increased surrender activity, margin calls on certain derivatives, and have other significant life insurance product impacts.

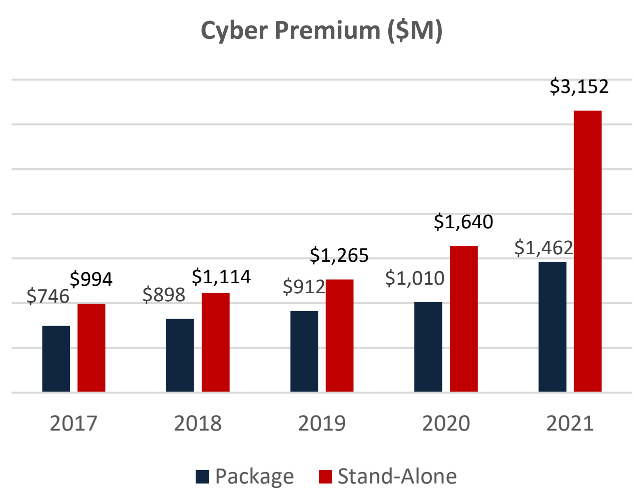
**Cyber Insurance**

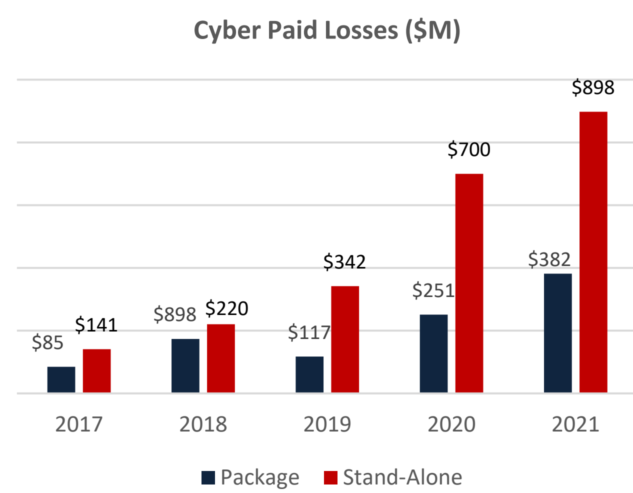
While cyber coverage is not a new risk to the industry, it continues to evolve as the demand continues to skyrocket and data breaches has become more widespread. According to the Council of Insurance Agents and Brokers (CIAB) Q4 Market Report, cyber was the most troubled line of business in Q4 2021 as respondents reported an average premium increase of 34.3% compared to Q4 2020. The CIAB noted that historical underpricing and an increase in frequency and severity of cyberattacks have had a significant impact on the market. In Q4 2021, 76% of respondents reported a decrease in underwriting capacity, the highest of any commercial line of business. Further, carriers were reducing cyber limits and imposing more restrictive terms and higher deductibles.




Source: The Council of Insurance Agents & Brokers, Commercial Property/Casualty Market Index – Q4/2021

Despite reduced capacity, cyber insurance direct premium written increased 75.0% YoY to $4.8 billion in 2021, of which 65.3% consisted of stand-alone policies and 34.7% package policies. At the same time, policies in force decreased to 3.7 million from 4.0 million a year ago, while the total number of claims reported climbed to 25,667 from 22,718. Direct losses increased 30.5% to $1.6 billion. As seen in the chart below, stand-alone coverage has become by far the most popular coverage with businesses in recent years due to broader coverage options. The PDLR for stand-alone coverage was 65.0% in 2021 versus 72.7% in 2020.



# Title Insurance Industry

**U.S. Title Insurance Industry Results** (in millions, except for percent)

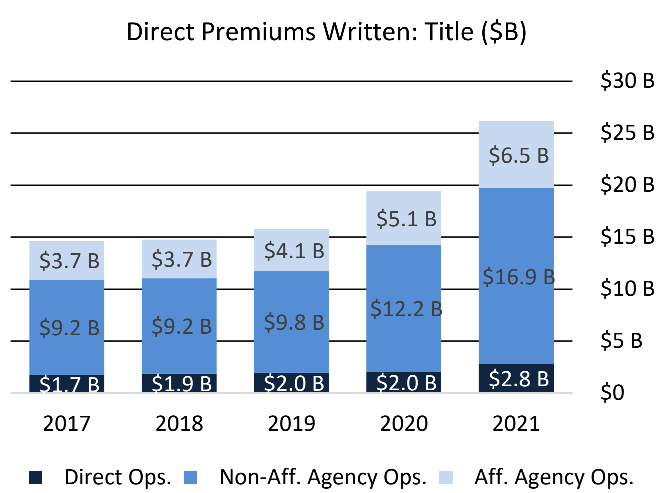
| For the year ended December 31, | YoY Chg | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Premiums Written | 35.9% | $26,308 | $19,353 | $15,752 | $14,731 | $14,617 | $14,133 | $12,964 | $11,156 | $12,569 | $11,246 |
| Title Premiums Earned | 34.3% | $25,598 | $19,054 | $15,599 | $14,678 | $14,461 | $13,976 | $12,787 | $11,389 | $12,490 | $11,233 |
| Loss & LAE Incurred | 2.9% | $578 | $562 | $605 | $644 | $629 | $687 | $672 | $742 | $825 | $851 |
| Operating Exp. Incurred | 33.1% | $24,364 | $18,310 | $15,090 | $14,137 | $14,089 | $13,357 | $12,163 | $10,659 | $11,919 | $10,881 |
| Net Operating Gain/(Loss) | 48.5% | $2,679 | $1,804 | $1,224 | $1,103 | $885 | $871 | $831 | $799 | $686 | $498 |
| Net Loss Ratio | (0.6) pts | 2.3% | 2.9% | 3.9% | 4.4% | 4.3% | 4.9% | 5.3% | 6.5% | 6.6% | 7.6% |
| Expense Ratio | (2.0) pts | 92.6% | 94.6% | 95.6% | 96.0% | 96.4% | 94.6% | 93.9% | 95.7% | 94.8% | 96.7% |
| Combined Ratio | (2.7) pts | 94.9% | 97.6% | 99.5% | 100.4% | 100.8% | 99.5% | 99.1% | 102.2% | 101.5% | 104.3% |
| Net Invmnt. Inc. Earned | (14.3%) | $330 | $385 | $435 | $360 | $348 | $276 | $326 | $261 | $274 | $321 |
| Net Realized Gains (Loss) | NM | $97 | $(40) | $75 | $(75) | $142 | $162 | $9 | $1 | $26 | $36 |
| Net Invmnt. Gain (Loss) | 23.8% | $427 | $345 | $510 | $285 | $489 | $437 | $336 | $262 | $299 | $356 |
| Net Income | 44.5% | $2,476 | $1,713 | $1,391 | $1,230 | $1,016 | $961 | $871 | $855 | $769 | $719 |
| Net Cash From Ops | 52.9% | $3,280 | $2,145 | $1,560 | $1,441 | $1,193 | $1,081 | $1,039 | $698 | $706 | $844 |
| Liquidity Ratio | (2.1) pts | 65.0% | 67.1% | 68.9% | 66.9% | 67.9% | 70.6% | 70.4% | 73.3% | 76.1% | 81.7% |
| **December 31,** | **YoY Chg** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** |
| Policyholders' Surplus | 14.5% | $7,135 | $6,229 | $5,664 | $4,818 | $4,800 | $4,357 | $4,121 | $4,122 | $3,842 | $2,950 |

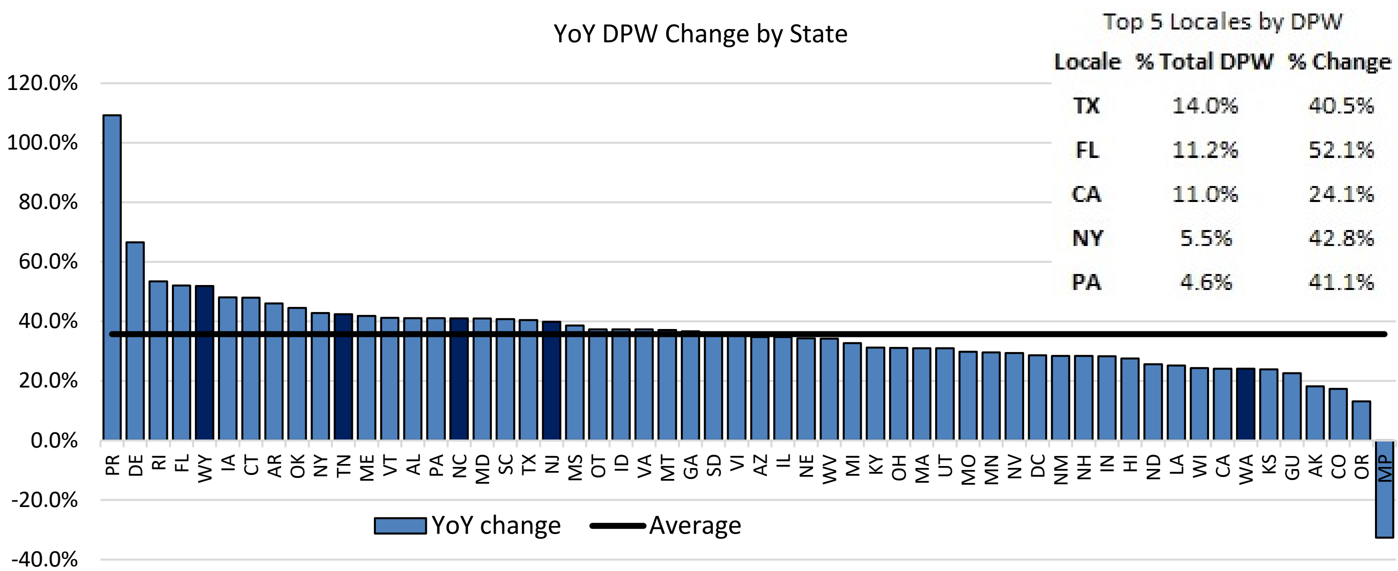
NM=Not Meaningful

**Premium**

Title industry premiums written were almost entirely on a direct basis through either direct operations or agency operations. Non-affiliated agencies represented 64.6% of Direct Premiums Written (DPW) in 2021. Overall, DPW increased 35.9% to $26.4 billion in 2021 due to higher average revenue from both commercial and residential purchase transactions driven by increased real estate values. Net premiums written totaled $26.3 billion, indicating that reinsurance is rarely used by title insurers. Net retention increased 0.1 points to 99.7%.

The five largest states by DPW (TX, FL, CA, NY, and PA) saw Florida move up one spot to second but were otherwise unchanged from recent years. These five states represent 46.3% of the 2021 market, up 1.0 point from 2020. Four of the five (excluding CA) saw year-on-year (YoY) DPW growth above the average of 35.9%. Puerto Rico (109.2%), Delaware (66.6%), Rhode Island (53.4%), Florida (52.1%) and Wyoming (51.9%) all grew over 50% by DPW, while Northern Mariana Islands (-35.9%) was the only decrease and Oregon (13.2%) saw the smallest growth.

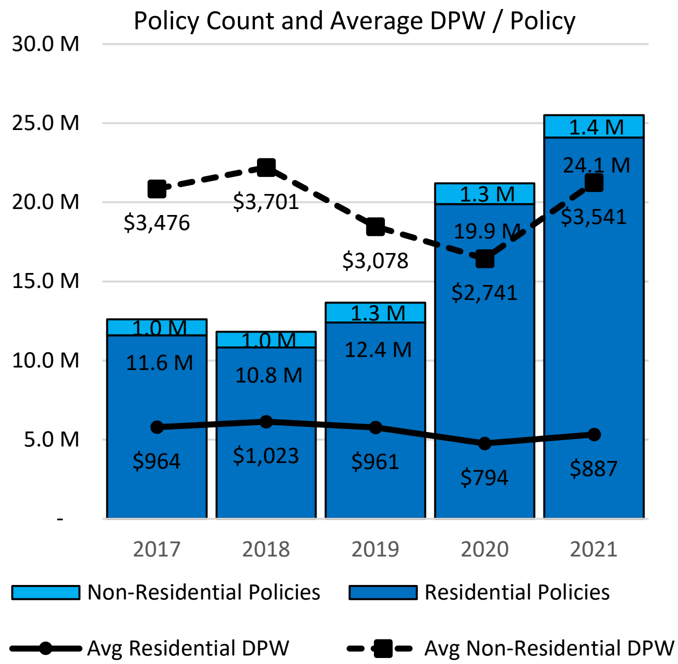





The U.S. Census Bureau and the U.S. Department of Housing and Urban Development March 2022 report indicated that during 2021, there were 1.6 million new housing starts (non-seasonally adjusted), up 16.0% from 2020. Seasonally adjusted new housing starts were up 3.9% in March 2022 vs March 2021 (4.8% without seasonal adjustment). This growth in housing starts is concentrated in the Northeast, with some growth in the West, and decreases in the Midwest and the South. New housing permits and starts have seen strong growth since March 2020, while new housing completions are down 13.0% vs March 2021 and slightly above (2.8%) March 2020.

| *$ amounts per policy* | # Policies | Net Premiums Earned | Direct Losses Paid | Direct Allocated LAE Paid | Direct Losses and LAE incurred | Direct Known Claim Reserves |
|---|---|---|---|---|---|---|
| ***Direct*** | | | | | | |
| **2021** | 2,174,237 | $1,294 | $33 | $23 | $49 | $66 |
| **2020** | 1,889,654 | $1,102 | $35 | $25 | $61 | $71 |
| ***Non-affiliated Agents*** | | | | | | |
| **2021** | 15,879,032 | $1,040 | $8 | $7 | $19 | $24 |
| **2020** | 12,878,232 | $927 | $10 | $10 | $20 | $30 |
| ***Affiliated Agents*** | | | | | | |
| **2021** | 7,446,772 | $843 | $8 | $7 | $12 | $18 |
| **2020** | 6,438,910 | $781 | $8 | $8 | $16 | $19 |
| ***Overall*** | | | | | | |
| **2021** | 25,500,041 | $1,004 | $10 | $9 | $19 | $26 |
| **2020** | 21,206,796 | $898 | $12 | $11 | $23 | $30 |

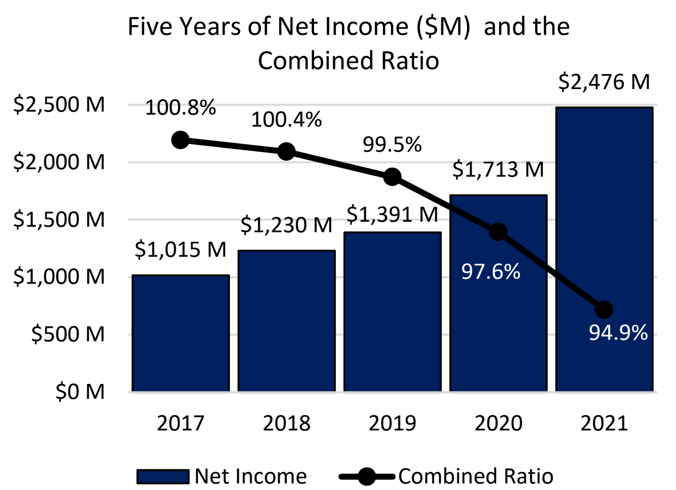
During 2021, 25.5 million policies were issued, a 20.2% increase over 2020. Residential policies increased 21.1% to 24.1 million while non-residential policies increased 7.4% to 1.4 million. Residential policies accounted for $21.4 million (81.1%) of the $26.4 million in DPW, or an average of $887 per residential policy. Non-residential policies averaged $3,540 per policy. This was an average YoY increase of 11.7% per residential policy and 29.1% per non-residential policy.




Collectively, the industry recorded $1,004 per policy in premiums earned, direct losses and allocated LAE incurred of $19 per policy, and $18 per policy in taxes, licenses, and fees. These values were similar to 2020's results of $898 in net premiums earned, $23 in expenses paid, and $15 in taxes per policy. While polices issued directly had a net premium earned per policy ($1294) that was 24.5% higher than those issued by non-affiliated agencies ($1040) or 53.6% higher than those from affiliated agencies ($843), the expenses paid and incurred ($106) were 210.7% ($34) and 302.8% ($26) higher, respectively.

**Profitability**

Net income for the industry totaled $2.5 billion, a 44.6% increase over 2020 and the fourth year in a row of double-digit net income growth driven by strong operating performance. Operating income increased 22.2% to $27.6 billion. Net operating gains increased 48.5% compared to 2020 to $2.7 billion, more than double the operating gains in 2019. Premiums earned grew faster than expenses in three of past five years, assisted by a decrease in 2021 in losses and LAE expenses incurred. The title industry recorded net operating gains for ten years in a row, with YoY growth increasing each year. This was the fifth consecutive year in which operating gains have increased as a percentage of operating income.



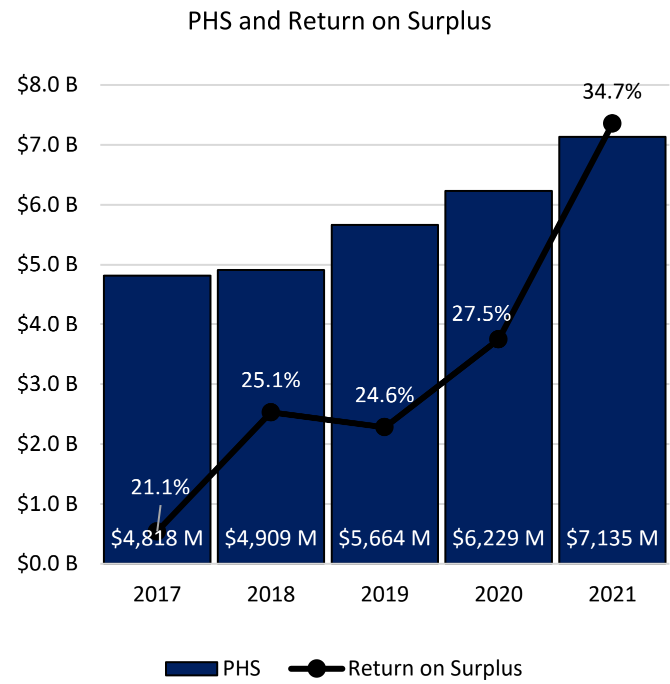

Net investment gains increased 23.8% over 2020 to $427 million, above both the five- and ten-year averages and equal to the three-year average. Net investment income earned decreased from $385 million to $330 million, a five-year low while net realized gains increased to $97 million, the second highest in five years. This was the first time in the past ten years that net investment gains fell below 20% of net income, continuing the trend of operating income dominating net income that started in 2018.

The combined ratio improved 2.7 points over 2020 to 94.9%, the third year in a row below 100%. Improvements happened in both the net loss ratio (down 0.6 points to 2.3%) and the expense ratio (down 2.0 points to 92.6%). This was the fifth year in a row the combined ratio improved.

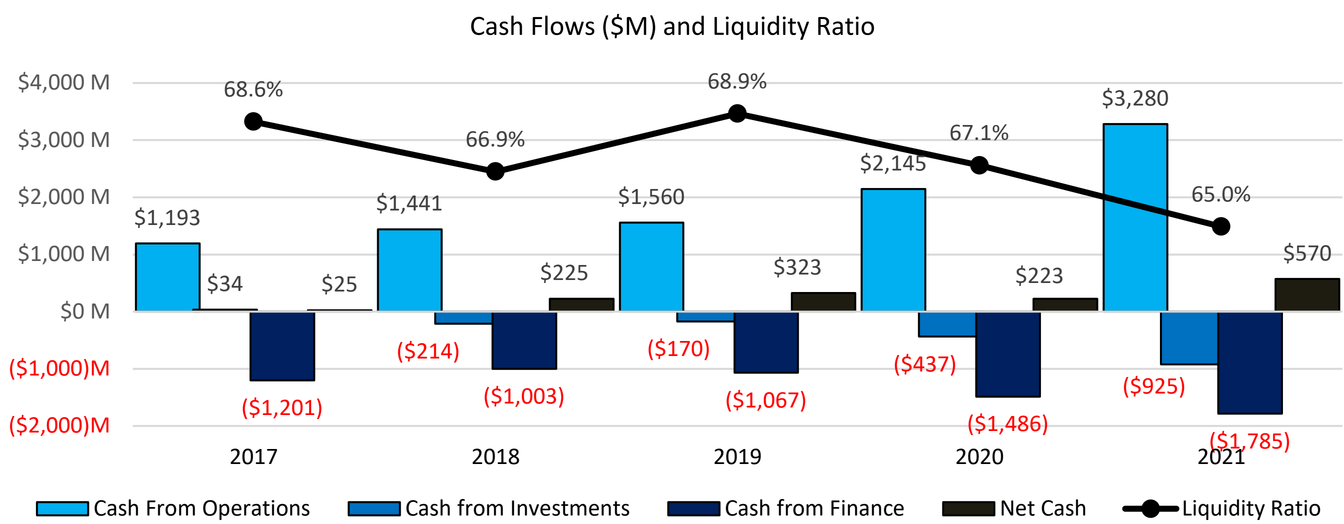
**Capital & Surplus**

Policyholder Surplus (PHS) increased 14.5% since 2020 to $7.1 billion as of December 31, 2021, more than double the PHS as of December 31, 2012. The 2021 increase was dominated by net income, offset by $1.7 billion in dividends paid. Net unrealized capital gains, the second largest contributor to the gain, decreased 23.0% to $179.2 million, but still exceeded the sum of all other non-dividend PHS deductions by $53.3 million. Return on surplus increased 8.3 points to 37.1%, the highest since 2014.




**Cash & Liquidity**

Net cash from operations increased for the seventh consecutive year to $3.3 billion or 52.9% over 2020. This was the largest YoY increase in the previous ten years. Premiums collected net of reinsurance were up 36.2%, which drove cash from operations inflows up 34.7%. Commissions, expenses paid, and aggregate write-ins for deductions (95.3% of all operation outflows) increased 32.7% while federal and foreign income taxes paid, the second largest at 2.7% of cash from operations outflows, increased 67.2%.




Net cash from investments totaled -$925.3 million, driven by increased investments in bonds (up $529.9 million) and stocks (up $557.6 million). Other invested assets decreased $88.3 million in 2021, largely offsetting the $104.9 million gain seen in 2020. Net cash from financing and miscellaneous sources totaled -$1.8 billion, largely driven by the $1.7 billion in dividends mentioned above.

The net change in cash was $569.6 million, an increase of 155.4% over 2020 to $2.5 billion in cash, cash equivalents, and short-term investments as of December 31, 2021. The industry's liquidity ratio improved 2.1 points to 65.0%, the third year in a row of improvement. Liquid assets increased 19.7% over 2020, while adjusted liabilities only increased 15.9%.

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