Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

Net income in the U.S. Property & Casualty Insurance Industry fell 14.5% to $34.0 billion in the first half of 2022, driven by underwriting losses compared to underwriting gains last year. This was largely due to a significant deterioration in auto results, as auto physical damage was impacted by inflation and supply chain issues, and social inflation continued to impact commercial liability. Strong investment returns offset the downturn in underwriting results. However, stressed equity markets resulted in significant unrealized capital losses, which more than offset net income. As a result, policyholders' surplus fell 8.1% since the prior year end to $989.8 billion.

While the long trend of industry profits continued into the first half of 2022, operating results in the second half of the year will certainly be impacted by economic inflation, the stock market decline, social inflation, and natural catastrophes.

Inside the Report

U.S. Property/Casualty Insurance Industry Results (in billions, except for percent)

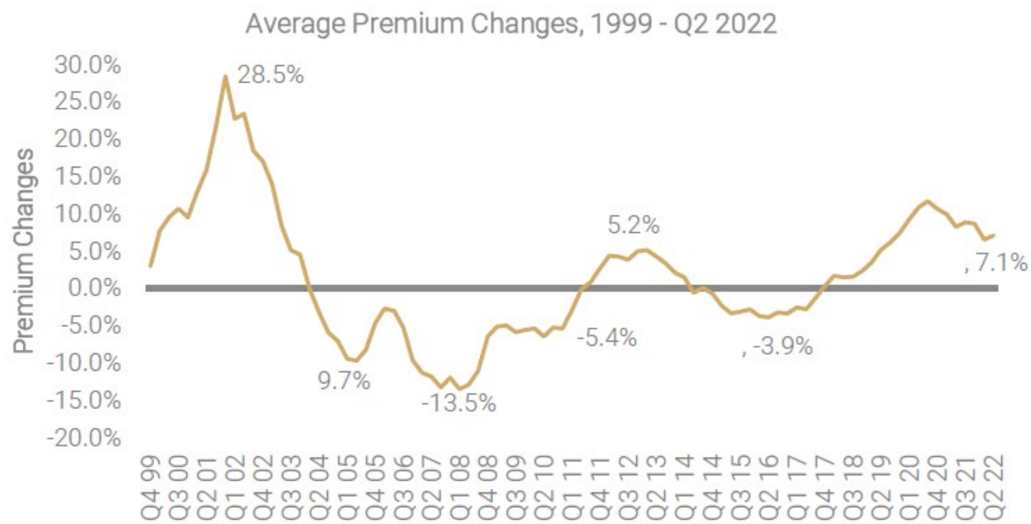
For the six months ended June 30,	Chg.	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Direct Premiums Written	9.9%	$434.0	$394.8	$362.3	$355.2	$340.6	$321.3	$306.9	$295.5	$282.8	$269.1
Net Premiums Written	10.6%	$388.6	$351.2	$327.6	$315.3	$316.7	$280.4	$268.8	$261.1	$251.4	$241.4
Net Premiums Earned	8.8%	$362.6	$333.3	$316.6	$308.3	$297.4	$270.4	$261.6	$252.5	$243.0	$243.0
Net Loss & LAE Incurred	15.0%	$266.6	$231.9	$217.2	$215.8	$204.9	$197.5	$186.9	$175.0	$171.8	$159.5
Underwriting Expenses	6.4%	$99.7	$93.7	$90.2	$85.4	$85.3	$75.8	$74.5	$72.4	$69.3	$67.6
Underwriting Gain (Loss)	NM	($4.2)	$7.3	$8.9	$6.5	$7.0	($3.2)	($0.2)	$4.7	$1.5	$5.8
Net Loss Ratio	4.0 pts	73.5%	69.6%	68.6%	70.0%	68.9%	73.0%	71.4%	69.3%	70.7%	70.7%
Expense Ratio	(0.9) pts	25.7%	26.7%	27.5%	27.1%	26.9%	27.0%	27.7%	27.7%	27.6%	26.9%
Dividend Ratio	(0.2) pts	0.47%	0.71%	1.55%	0.55%	0.53%	0.54%	0.55%	0.53%	0.57%	0.52%
Combined Ratio	2.8 pts	99.7%	96.9%	97.7%	97.6%	96.3%	100.6%	99.7%	97.6%	98.8%	98.1%
Investment Inc. Earned	35.7%	$39.2	$28.9	$28.3	$29.3	$28.9	$25.6	$24.2	$24.7	$25.2	$27.0
Realized Gains (Losses)	(63.3%)	$3.6	$9.7	($0.9)	$4.6	$5.5	$3.9	$4.8	$8.5	$7.6	$11.1
Investment Gain (Loss)	10.8%	$42.8	$38.6	$27.4	$33.9	$34.4	$29.5	$29.0	$33.2	$32.8	$38.1
Investment Yield (a)	0.85-pts	3.75%	2.90%	3.15%	3.47%	3.50%	3.28%	3.24%	3.32%	3.48%	3.96%
Net Income (b)	(14.5%)	$34.0	$39.8	$26.8	$34.8	$35.8	$17.7	$22.2	$32.7	$28.5	$35.7
Return on Revenue	(2.3)-pts	8.4%	10.7%	7.8%	10.2%	10.8%	5.9%	7.6%	11.4%	10.3%	12.7%
		June 30,	December 31, 2013-2021								
	Chg.	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Capital & Surplus (b)	(8.1%)	$989.8	$1,077.6	$955.1	$891.2	$780.0	$786.0	$734.0	$705.9	$706.7	$686.1

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

MARKET CONDITIONS

Premium Pricing

While hard market conditions existed in the U.S. Property & Casualty in most lines of business, there appear to be signs of stabilization as premium increases in most commercial lines began to slow in Q4-2020. According to the Council of Insurance Agents and Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2022 (April 1 – June 30)*, Q2 2022 was the nineteenth consecutive quarter of increased commercial premiums with respondents reporting an average increase of 7.1% across all account sizes, compared to 6.6% in Q1. Despite the small increase, respondents indicated the market continued to stabilize due to price moderation and additional competition.



Source: The Council of Insurance Agents & Brokers

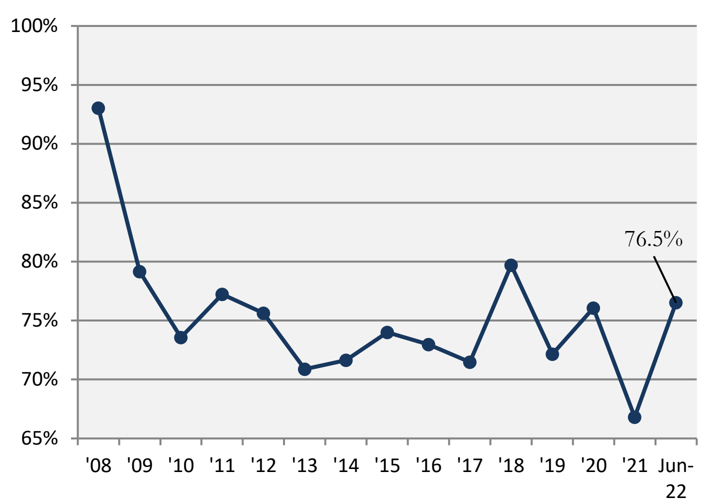
The report also noted that the insurance industry is feeling the impact of inflation primarily in the commercial property and commercial auto lines of business. Inflation has led to higher valuations for buildings and increasing costs for building materials and auto parts, which has resulted in higher insuring values and rates. Respondents reported an 8.3% average increase in commercial property premium rates and an average 7.2% increase in commercial auto, which has now seen forty-four consecutive quarters of premium rate increases.

Capacity

Insurer capacity to write new business remains abundant as evidenced by a net writings leverage ratio of 76.5% at June 30, 2022, as seen in the accompanying chart. A trend of industry profits has boosted capital levels and kept the ratio below 80.0% for thirteen consecutive years.

Although the first half of 2022 was relatively mild with respect to natural catastrophes, the active hurricane season predicted for the second half of the year, combined with inflationary pressures facing the industry, will likely weigh on insurers' bottom lines. Despite this uncertainty, we know capital levels in the industry remain strong.

Net Writings Leverage



WRITINGS

Direct premiums written (DPW) increased 9.9% to $434.1 billion in the first half of 2022 compared to $394.8 billion for the same period in 2021. The growth can be attributed to an increase in rates as a result of the continued hard market resulting from economic and social inflation, and increased frequency and severity of catastrophe events. Nearly all major lines of business saw premium increases.

Homeowners DPW increased 11.3% compared to the first half of last year to $64.0 billion. The increased frequency and severity of natural catastrophes in recent years has placed pressure on profitability. As a result, reinsurance pricing has increased, which has placed upward pressure on consumer premium rates. The latest headwind has been inflation as mentioned previously. Over the last year there have been dramatic increases in construction costs, causing insurers to adjust rates.

Private passenger auto liability DPW increased 2.8% to $79.2 billion. Insurers have adjusted rates based on increased claims activity as traffic volumes have returned to normal post pandemic. More recently, inflation and supply chain issues have impacted claim costs, which also drove rates higher.

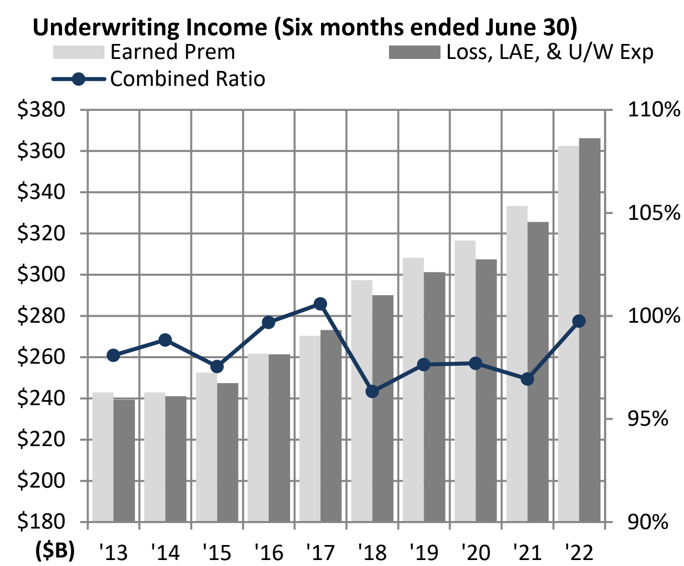
Beginning in 2022, the premium for personal and commercial auto physical damage is reported separately. For comparison, however, the combined DPW was $64.5 billion for the current year-to-date, 6.9% higher than the year ago period.

Other liability DPW increased 13.7% to $56.3 billion. This coverage includes professional, environmental, general liability, directors and officers (D&O), and employers' liability. Rates have increased in response to rising loss costs primarily due to adverse development of prior accident year reserves and social inflation. Also within the commercial space, workers' compensation, commercial multiple peril, and commercial auto liability DPW increased 9.4%, 10.9%, and 14.7%, respectively.

From a geographic perspective, all states and territories experienced DPW growth Year on Year (YoY), except for American Samoa and the U.S. Virgin Islands. California recorded the greatest market share at 11.8% and DPW increased 9.7% YoY. Texas' market share was 9.2% and had a 13.4% YoY increase in DPW while Florida (9.0% market share) had a 15.8% increase, and New York (6.8% market share) increased 9.1%.

UNDERWRITING OPERATIONS

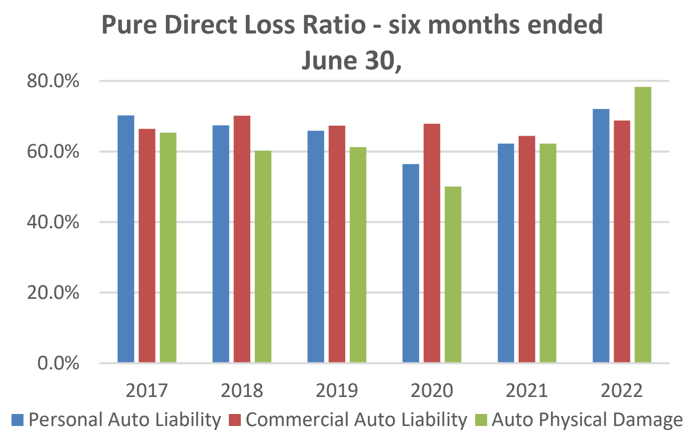
The industry recorded a $4.2 billion underwriting loss for the first half of 2022, its first loss in the last five mid-year periods and the largest mid-year loss since 2012. The downturn was primarily driven by a deterioration in personal auto results, as the rising severity of liability losses and inflationary pressure on physical damage resulted in rate adequacy challenges for carriers. Underwriting performance was also negatively impacted by commercial liability lines, where commercial carriers have seen a steady upward trend in calendar year loss ratios over the last few years, driven by economic and social inflation. To a lesser extent, insured losses from natural catastrophes totaling roughly $19.0 billion, nearly all related to thunderstorms and tornadoes, also had an impact on underwriting results.



For the current period, net premiums earned increased 8.8% to $362.6 billion while net losses and LAE incurred increased 15.0% to $266.6 billion resulting in a 4.0-point deterioration in the net loss ratio to 73.5%. The 10.2% growth in net premiums written outpaced the 6.4% increase in underwriting expenses, resulting in a small improvement in the expense ratio to 25.7%. Overall, the combined ratio deteriorated 2.8-points to 99.7%.

Worsening Auto Results

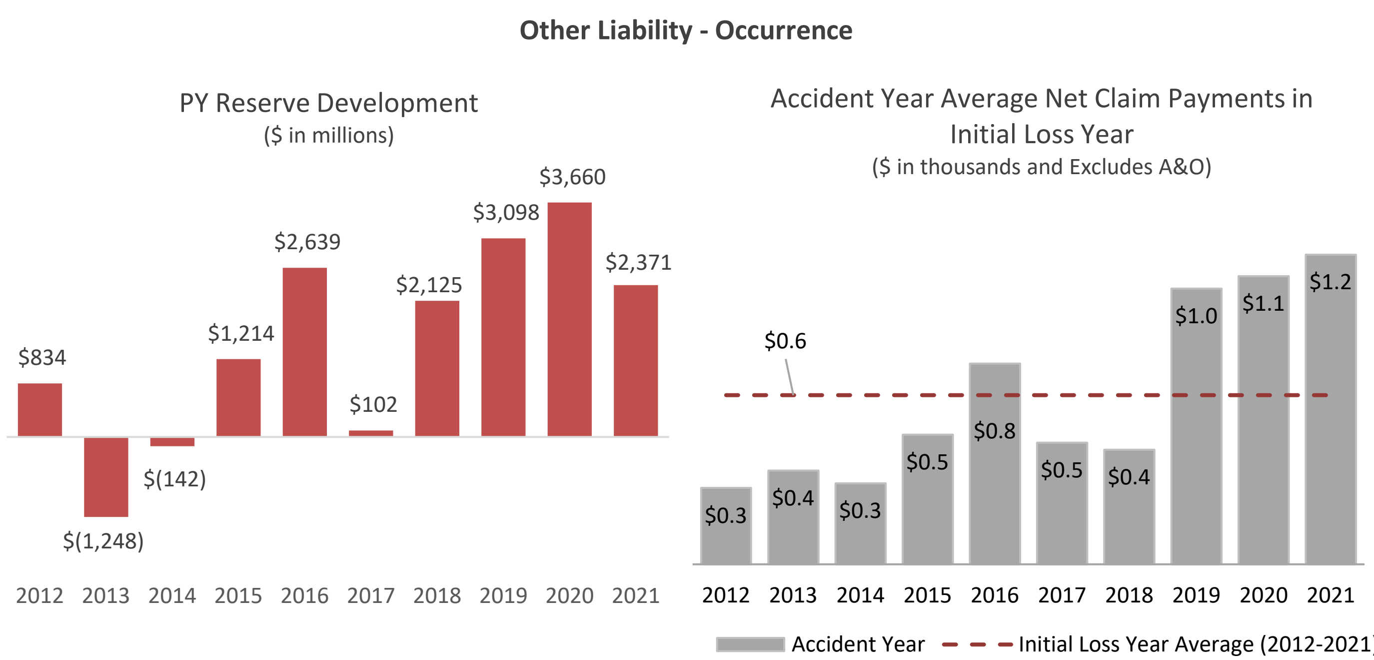
As economic activity returned to normal in 2021 following the Covid-19 shutdowns, auto claims activity returned to normal frequency. The YoY increase in frequency is now compounded by economic inflation and supply chain issues which has driven the increase in loss severity as the accompanying chart shows. Auto liability represented 27.3% of total industry direct losses incurred in the first half of 2022. Commercial auto liability losses increased 17.5% while personal auto liability losses increased 18.5%. Auto physical damage losses increased 34.0% compared to the prior year to date and represented 19.0% of total direct losses incurred.



Commercial Liability

Commercial liability, particularly auto (above) and other liability-occurrence, have been challenging lines of business in recent years from an underwriting standpoint. With regard to other liability-occurrence, underwriting losses have been recognized each year since 2013. Loss costs have trended upward in recent years primarily due to adverse development of prior accident year reserves, rising costs due to social inflation, and a prolonged stretch of soft market conditions that existed until roughly 2020 in most lines. For the current period, the pure direct loss ratio (PDLR) increased 2.1-points since the prior year end to 63.6%.

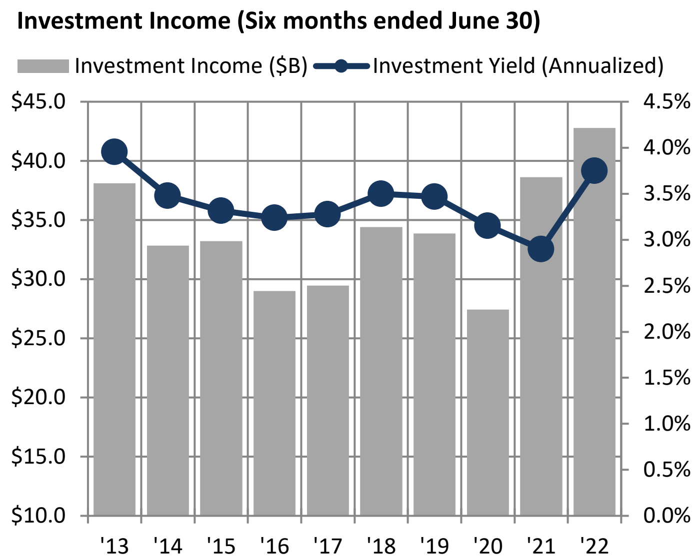
The chart below shows a sharp increase in average net claim payments in the last three years for carriers that report claim count information per claimant. In addition, adverse development of prior accident year reserves occurred in the last seven years. It was noted that the 2021 deficiency added 5.1-points to the calendar year net loss ratio of 71%.



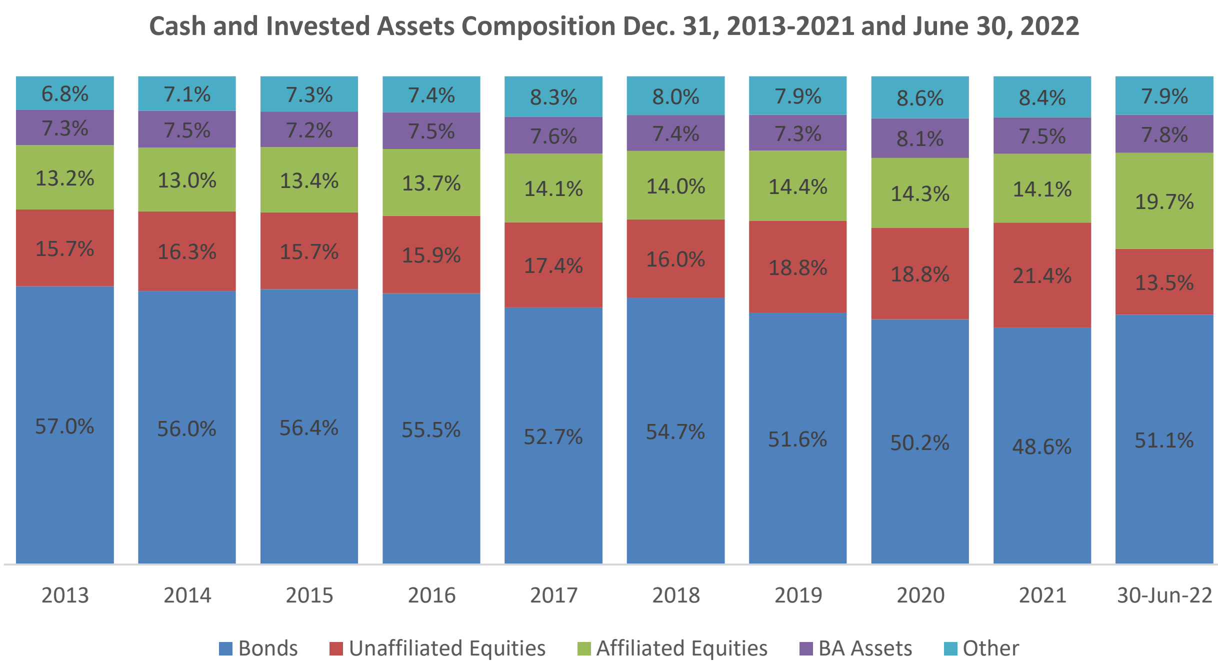
INVESTMENT OPERATIONS

Investment gains were 10.8% higher than the first half of last year, totaling $42.8 billion for the six months ended June 30, 2022. Net investment income earned was 35.7% higher while the downturn in equity markets resulted in a 63.3% decrease in realized capital gains to $3.6 billion compared to $9.7 billion a year ago.

Investment yield (annualized) was 3.75% versus 2.90% for the prior year period. The primary factor for the increase in the investment yield is an increase in the federal funds rate. The U.S. Federal Reserve (Fed) has increased the federal funds rate at five straight meetings in 2022, the most activity since 2005, to combat inflation. The Fed raised the rate by three quarters of a point in September for the third time in 2022, bringing the benchmark interest rate up to a target range of 3-3.25%, the highest since 2008.



A trend in the industry's cash and invested assets allocation is shown below. Bonds comprised the majority totaling $1.2 trillion, which equated to 51.1% of total cash and invested assets at June 30, 2022. 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. The lower percentage of unaffiliated equities to total cash and invested assets at June 30, 2022 compared to the prior year represented lower valuations resulting from the downturn in equity markets rather than a shift in investment strategy. In fact, property & casualty insurers purchased more equities in the first half of the year compared to the same period last year.

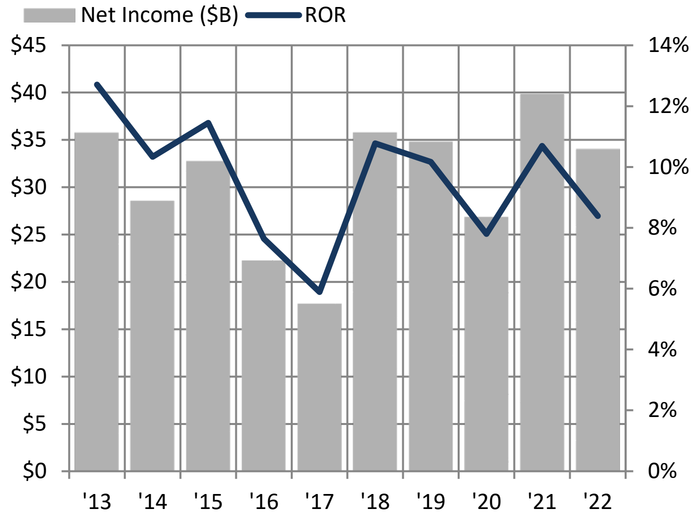


NET INCOME

Despite the unfavorable underwriting results, the industry still recorded a profit of $34.0 billion in the first half of 2022 due to the previously mentioned increase in investment gains.

Return on revenue (RoR) of 8.4% reflected the solid profitability but was 2.3-points lower compared to last year's RoR of 10.7% as net income was lower in relation to net premiums earned and investment gains.

Net Income (Six months ended June 30)

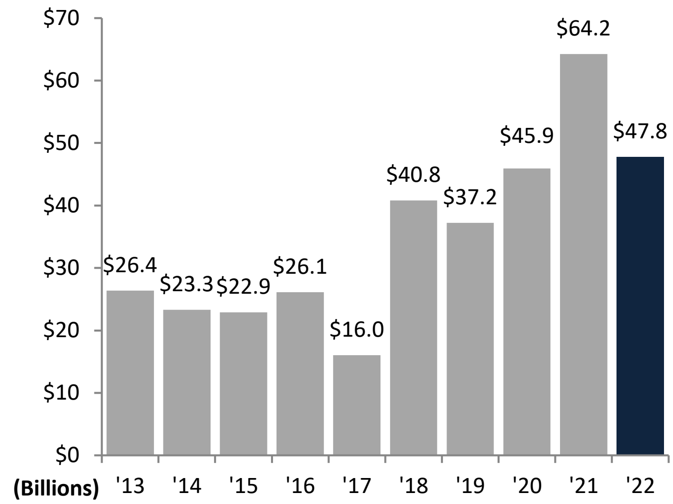


CASH FLOW & LIQUIDITY

Net cash provided by operating activities decreased 25.6% compared to the same period in 2021 to $47.8 billion. The deterioration stemmed from a 24.7% increase in benefit and loss related payments related to higher loss costs primarily in the personal auto and commercial liability markets. Partially offsetting the increase in loss payments was a 7.1% increase in premiums collected net of reinsurance and the previously mentioned increase in investment income.

The liquidity ratio remained solid, but worsened 4.5-points since the prior year-end to 79.7% at June 30, 2022. Liquid assets increased 2.6% while adjusted liabilities increased at a greater pace of 7.4%.

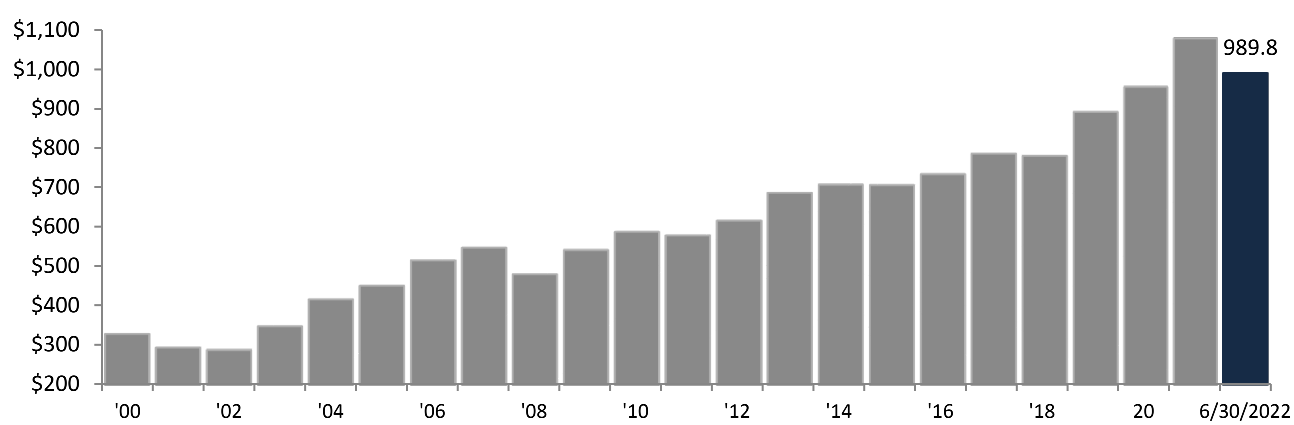
Cash from Operations (Six months ended June 30)



CAPITAL & SURPLUS

Industry aggregated policyholders' surplus (adjusted to eliminate stacking) totaled $989.8 billion at June 30, 2022, an 8.1% decrease compared to $1.1 trillion at December 31, 2021. The decline was due to unrealized capital losses of $122.1 billion reflecting the recent downturn in equity markets.

Capital & Surplus ($B)

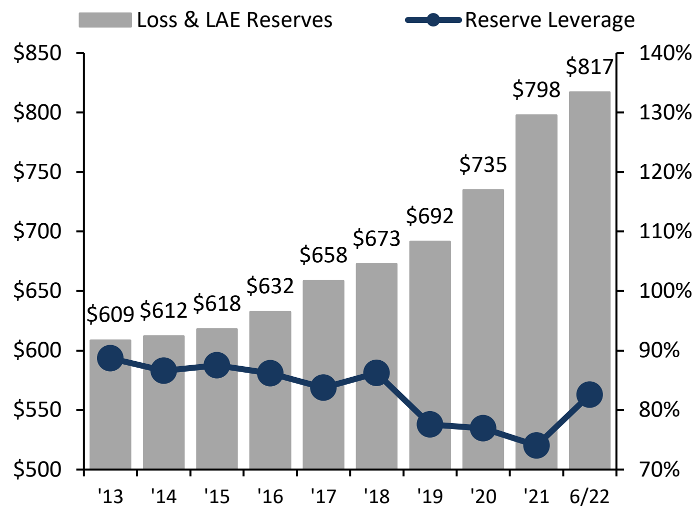


RESERVES

Loss and LAE reserves increased 2.4% since the prior year-end to $816.9 billion at June 30, 2022, and was comprised of $683.2 billion unpaid losses and $133.7 billion unpaid LAE. For the current period, reserve leverage worsened 8.5-points to 74.7% compared to 82.5% at the prior year-end attributable to the decline in surplus.

The trend in net favorable loss reserve development continued with an overall redundancy of $6.8 billion in the first half of 2022, which consisted of a $60.1 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $54.2 billion deficiency in prior year known case loss and LAE reserves.

Loss & LAE Reserves ($B)



LOOKING AHEAD

While the industry remained profitable and well capitalized in the first half of 2022 there are a number of challenges facing the property and casualty market that will likely put a strain on insurers' bottom lines.

- Economic inflation is at a forty year high, leading to increased loss costs in property lines that could impact reserve adequacy.
- There has been an increase in frequency and severity of natural disasters which has resulted in a 10%-30% increase in reinsurance pricing. Reports indicate insured losses from Hurricane Ian could reach between $40-$60 billion.
- Social inflation, a sharp rise in compensatory jury awards driven by third party capital funding lawsuits, was a main driver in a deterioration in commercial liability lines in the first half of the year.
- The stock market downturn resulted in significant unrealized capital losses in 2022 as property & casualty companies invest more in equities than they did ten years ago (see cash and invested assets chart on the bottom of page 5). This was the primary factor in the decline in surplus.

Title Industry

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

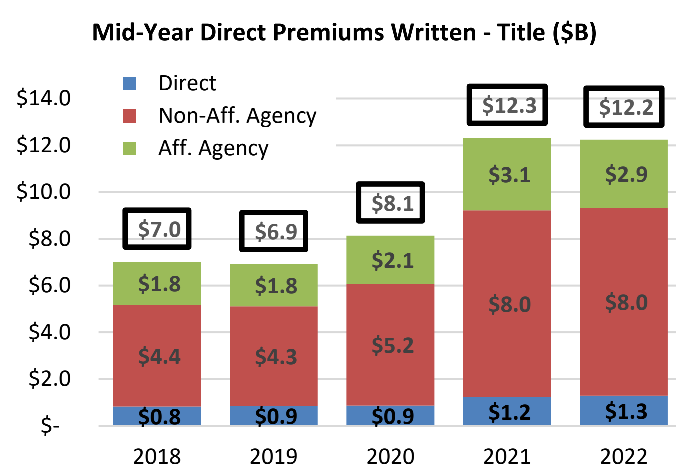
For the six months ended June 30,	YoY Chg.	2022	2021	2020	2019	2018
Direct Premiums Written	(0.7)%	$12,234	$12,315	$8,136	$6,913	$7,019
Direct Ops.	5.4%	$1,292	$1,226	$863	$854	$832
Non-Aff. Agency Ops.	0.3%	$8,022	$7,997	$5,211	$4,257	$4,354
Aff. Agency Ops.	(5.6)%	$2,919	$3,092	$2,063	$1,803	$1,833
Premiums Earned	0.2%	$11,988	$11,969	$8,034	$6,871	$6,982
Loss & LAE Incurred	9.5%	$313	$285	$255	$283	$306
Operating Exp Incurred	0.1%	$11,461	$11,454	$7,828	$6,710	$6,739
Net Operating Gain/(Loss)	(8.8)%	$1,085	$1,190	$633	$465	$499
Net Inv. Income Earned	4.9%	$177	$168	$203	$202	$160
Net Realized Gain/(Loss)	NM	$77	$25	$(26)	$44	$13
Net Inv. Gain (Loss)	31.6%	$254	$193	$178	$247	$174
Net Income	(1.3)%	$1,093	$1,108	$675	$585	$676
Loss Ratio	0.2-pts	2.6%	2.4%	3.2%	4.1%	4.4%
Expense Ratio	(0.1)-pts	95.6%	95.7%	97.5%	97.7%	96.6%
Combined Ratio	0.1-pts	98.2%	98.1%	100.6%	101.8%	100.9%
Net Unrealized Gain/(Loss)	NM	$(667)	$270	$(187)	$215	$(75)
Net Cash from Operations	(31.6)%	$879	$1,286	$689	$348	$462

NM=Not Meaningful

Premium

The Monthly New Residential Construction, June 2022 report from the U.S. Census Bureau and the U.S. Department of Housing and Urban Development showed June privately owned housing starts were down 6.3% (±10.2%) from June 2021. Nationally, completions increased 4.6 % (±13.4%) over the past year, while permits increased by 1.4%. These changes over the prior year to date were seen across all regions.

The U.S. title insurance business reflected this decrease in starts as direct premiums written (DPW) stagnated, decreasing 0.7% (or $81 million) to $12.2 billion for the first half of 2022, with this decrease concentrated in affiliated agency operations. The majority (65.6%) of DPW continued to be produced through non-affiliated agency operations, as has been true for the past several years.

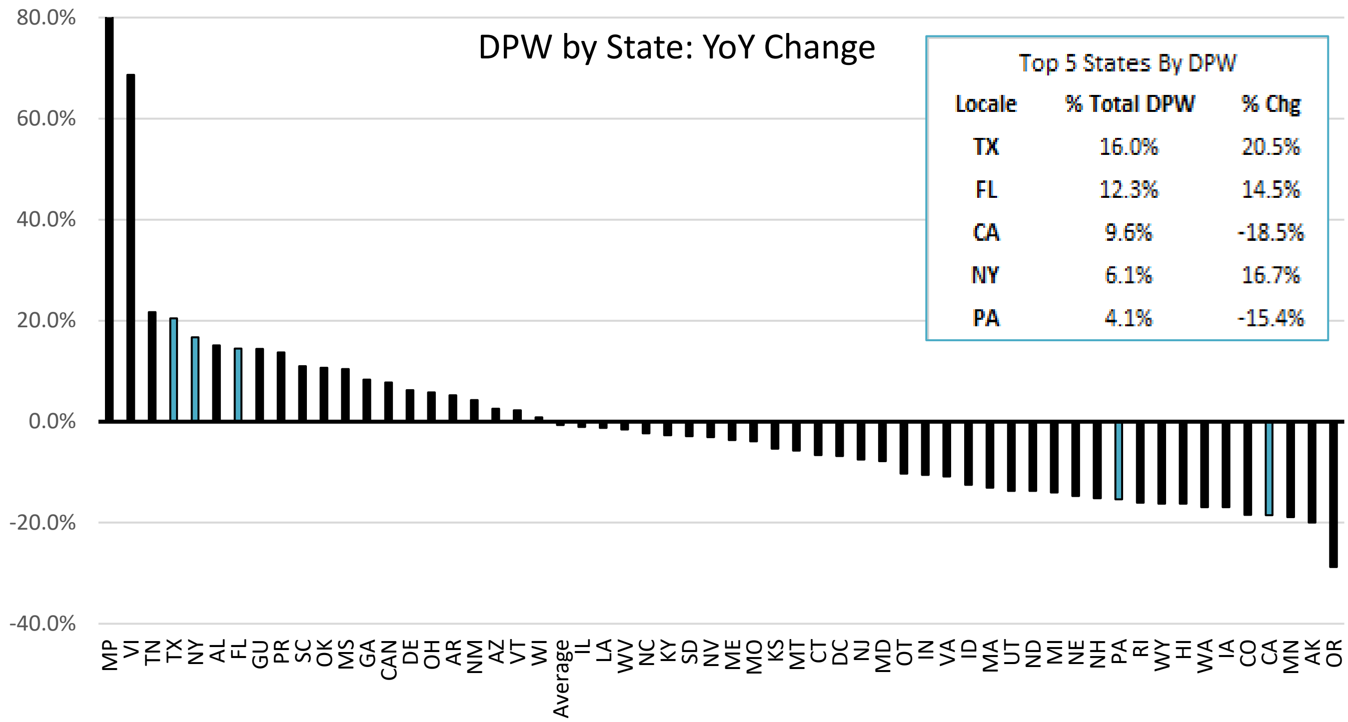


The four largest title insurance companies continued to dominate market share, comprising 63.8% collectively, a 2.3 point increase over mid-year 2021. The largest insurance group, containing two of the four largest companies as well as 3 smaller insurers, wrote $3.9 billion

(32.2%) in DPW, while the second-largest insurance group wrote $2.8 billion (23.5%) in DPW. The third largest group wrote $1.8 billion (15.1%) in DPW. Insurers without a group wrote $1.7 billion (13.9%) in DPW.

The five largest states by DPW (TX, FL, CA, NY, and PA) remained the same as mid-year 2021. Together, these five states (shown in light grey below) represented 48.0% of the market during the first half of 2022, up 1.7 points from the prior year end. Only three of these states experienced growth over mid-year 2021, with Pennsylvania decreasing 15.4% and California decreasing 18.5% compared to the prior mid-year period. Twenty-one locales experienced DPW growth compared to the prior mid-year period while thirty-six saw a decrease, with 20 seeing a decrease of greater than 10%. The overall average (below) was a slight decrease in DPW of 0.6%.

Four states saw change in mid-year DPW exceeding 20%. Alaska (-20.0%) and Oregon (-28.7%) saw decreases of over 20%, while Texas (20.5%) and Tennessee (21.7%) saw growth over 20%. The Virgin Islands saw growth of 68.6% and Northern Mariana Islands saw growth of 81.0%, both on very small DPW totals.

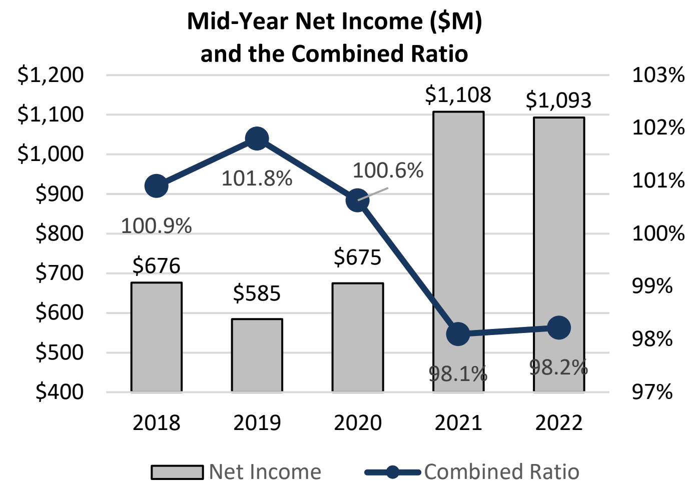


Profitability

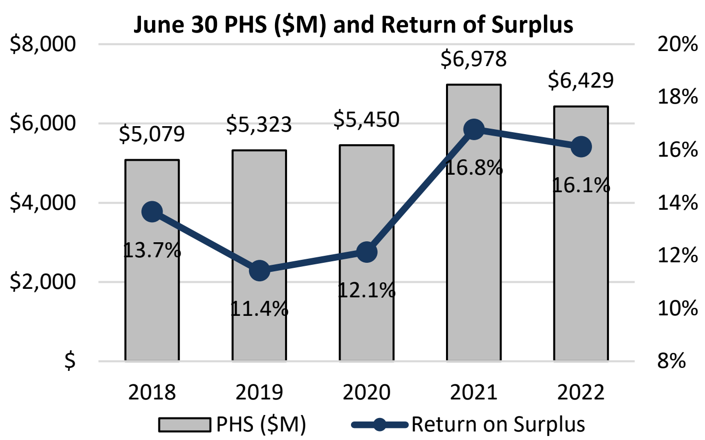
A net operating gain of $1.1 billion was reported for the first half of 2022, representing an 8.8% YoY decrease compared to $1.2 billion for the first half of 2021. This decrease was attributable to a 0.6% (or $71.8 million) decrease in total operating income to $12.9 billion and a 0.3% (or $33.3 million) increase in total operating expenses to $11.8 billion. The decrease in total operating income was largely driven by a 18.8% ($65.2 million) decrease in escrow and settlement services, while the increase in operating expenses was largely due to a 9.5% ($27.1 million) increase in losses and loss adjustment expenses incurred.

The mid-year combined ratio of 98.2% was 0.1 points higher than last year but remains below 100% for only the second time since 2009. The loss ratio increased 0.2 points to 2.6%, reversing a longstanding trend of decreasing values, while the expense ratio decreased 0.1 points, continuing its trend.

A net investment gain of $254.2 million was 31.6% higher compared to the prior year period. Net investment income earned was $176.8 million, an $8.3 million increase compared to 2021. Net realized capital gains increased 214.0% over 2021, to $77.4 million. This increase of $52.7 million, larger than the prior year's increase of $50.3 million, brought net realized capital gains above the pre-pandemic level.



Overall, the solid net investment gain was insufficient to offset the decline in operating income, decreasing net income by 1.3% to $1.1 billion for the first half of 2022. Mid-year net income is still nearly double the industry's 2019 mid-year net income.



Capital & Surplus

Policyholder Surplus (PHS) decreased 7.9% compared to mid-year 2021. This decrease was primarily driven by $924.6 million in dividends to stockholders. Additionally, there was a $666.5 million decrease to PHS from the negative impact of rising net unrealized losses

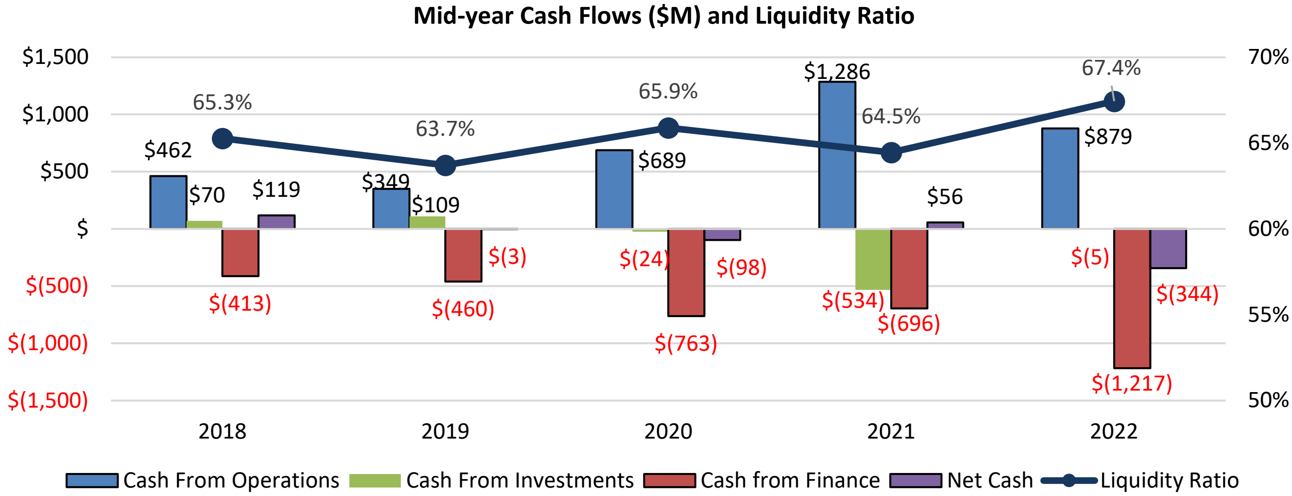
The return on surplus decreased 0.7 points YoY, as both net income and PHS declined, but remains higher than pre-pandemic levels.

Cash & Liquidity

Net cash from operations for the first half of 2022 totaled $879.3 million, a 31.6% decrease compared to the same period in 2021. Cash inflows decreased a nominal 0.7% to $13.3 billion while cash outflows increased 2.5% ($306.7 million) to $12.4 billion. The primary driver of outflow change was a 2.2% ($255.6 million) increase in commissions, expenses paid, and aggregate write-ins for deductions.

Acquisitions exceeded dispositions in investments, resulting in a net loss for cash from investments of $5.4 million, a large improvement over the prior mid-year's net loss of $533.7 million. This change was likely due to financial market deterioration, making new investments less attractive. Net cash from financing recorded a loss of $1.2 billion in cash, nearly double the prior year's loss of $696.0 million. This loss included $47.5 million in cash applied for surplus notes and capital as well as a $289.3 million (45.5%) increase to $924.6 million in dividends to stockholders.

Liquidity remained strong at 67.4% as of June 30, 2022. This was a 3 point deterioration over mid-year 2021 Liquid assets increased 1.0% to $10.1 billion on a small 0.3% ($35.5 million) increase in cash and invested assets as well as a 4.3% ($69.6 million) decrease in affiliated investments.



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