Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

Premium increases and lower claims costs helped the U.S. Property & Casualty (P&C) insurance industry recover from two years of underwriting losses. Investment gains, largely driven by a $50 billion swing from a transaction related to one insurer, resulted in a significant increase in net income which drove policyholders' surplus to an all-time high at June 30, 2024.

Although the long trend of industry profits continued, operating results in the second half of the year will be impacted by an active hurricane season, a more recent trend of severe convective storms, high reinsurance costs, and uncertainty in the financial markets.

Inside the Report

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

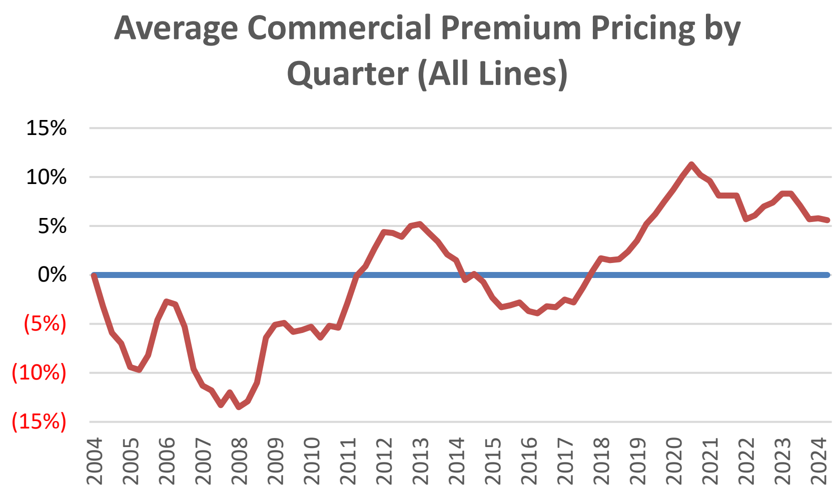
For the six months ended June 30,	Chg.	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Direct Premiums Written	10.5%	$529.0	$478.6	$434.0	$394.8	$362.3	$355.2	$340.6	$321.3	$306.9	$295.5
Net Premiums Written	10.5%	$468.8	$424.3	$388.6	$351.2	$327.6	$315.3	$316.7	$280.4	$268.8	$261.1
Net Premiums Earned	11.1%	$442.1	$397.9	$364.1	$333.3	$316.6	$316.6	$297.4	$270.4	$261.6	$252.5
Net Loss & LAE Incurred	2.3%	$319.8	$312.6	$267.8	$231.9	$217.2	$217.2	$204.9	$197.5	$186.9	$175.0
Underwriting Expenses	8.5%	$116.3	$107.2	$100.2	$93.7	$90.2	$90.2	$85.3	$75.8	$74.5	$72.4
Underwriting Gain (Loss)	NM	$5.6	($22.4)	($4.4)	$7.3	$8.9	$8.9	$7.0	($3.2)	($0.2)	$4.7
Net Loss Ratio	(6.2) pts	72.3%	78.6%	73.5%	69.6%	68.6%	68.6%	68.9%	73.0%	71.4%	69.3%
Expense Ratio	(0.4) pts	24.8%	25.2%	25.8%	26.7%	27.5%	27.5%	26.9%	27.0%	27.7%	27.7%
Dividend Ratio	(0.0) pts	0.35%	0.38%	0.47%	0.71%	1.55%	1.55%	0.53%	0.54%	0.55%	0.53%
Combined Ratio	(6.7) pts	97.5%	104.2%	99.8%	96.9%	97.7%	97.7%	96.3%	100.6%	99.7%	97.6%
Investment Inc. Earned	26.2%	$43.8	$34.7	$39.3	$28.9	$28.3	$28.3	$28.9	$25.6	$24.2	$24.7
Realized Gains (Losses)	2,407.0%	$58.4	$2.3	$3.6	$9.7	($0.9)	($0.9)	$5.5	$3.9	$4.8	$8.5
Investment Gain (Loss)	176.0%	$102.3	$37.1	$42.9	$38.6	$27.4	$27.4	$34.4	$29.5	$29.0	$33.2
Investment Yield (a)	0.62-pts	3.81%	3.20%	3.75%	2.90%	3.15%	3.27%	3.50%	3.28%	3.24%	3.32%
Net Income (b)	855.7%	$99.1	$10.4	$33.8	$39.8	$26.8	$26.8	$35.8	$17.7	$22.2	$32.7
Return on Revenue	15.8-pts	18.2%	2.4%	8.3%	10.7%	7.8%	7.8%	10.8%	5.9%	7.6%	11.4%
		June 30,	December 31, 2015-2023								
	Chg.	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Capital & Surplus (b)	7.1%	$1,138.1	$1,063.0	$1,000.9	$1,077.6	$955.1	$891.2	$780.0	$786.0	$734.0	$705.9

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

MARKET CONDITIONS

Premium Pricing

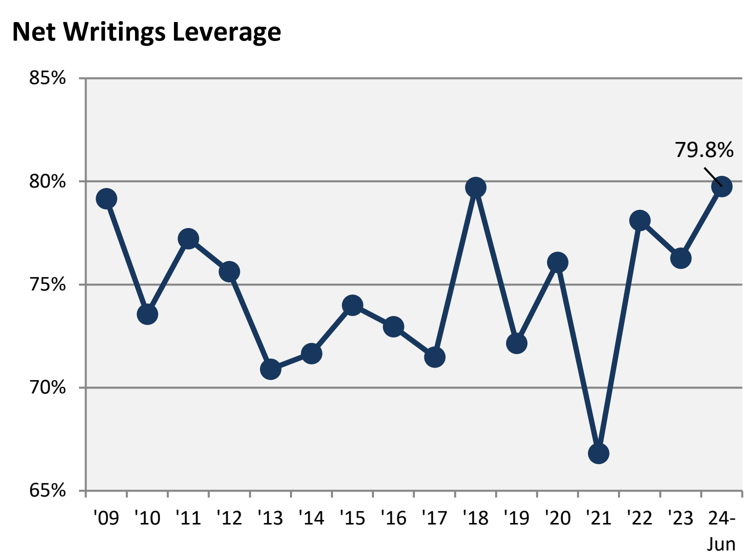
While personal lines are still experiencing hard market conditions due to poor underwriting performance in recent years, solid performance in commercial lines has caused insurers to pull back on rate increases, leading to softer conditions in the commercial segment. According to the Council of Insurance Agents and Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2024 (April 1 – June 30)*, in Q2 2024, respondents reported an average premium increase of 5.2% across all account sizes for commercial lines, down from 7.7% in Q1. However, Q2 2024 was the twenty-seventh consecutive quarter of increased commercial rates. Further, the average premium rate increase was 5.6% compared to 5.8% in Q1 across the five major lines of business.



The report noted that commercial auto reported an average premium rate increase of 9.0%, the highest among all lines, marking fifty-four consecutive quarters of premium increases. Also, for the first time since Q3 2019, no line of business recorded an average premium increase of over 10%. Further, workers' compensation, cyber, D&O, and employment practices liability all reported premium decreases this quarter.

Capacity

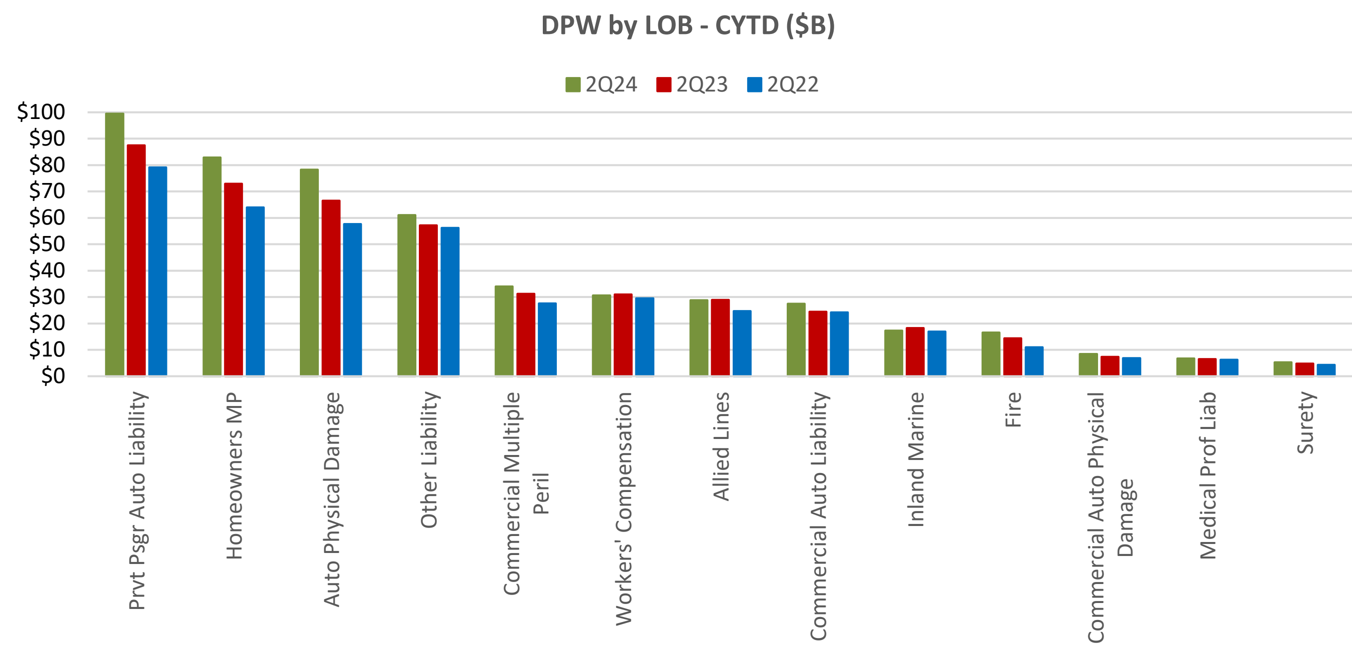
While the net writings leverage ratio worsened slightly since the prior year end to 79.8%, due to significant premium growth, a long trend of industry profits has provided a significant boost to capital levels, keeping the ratio at a healthy level for well over a decade.



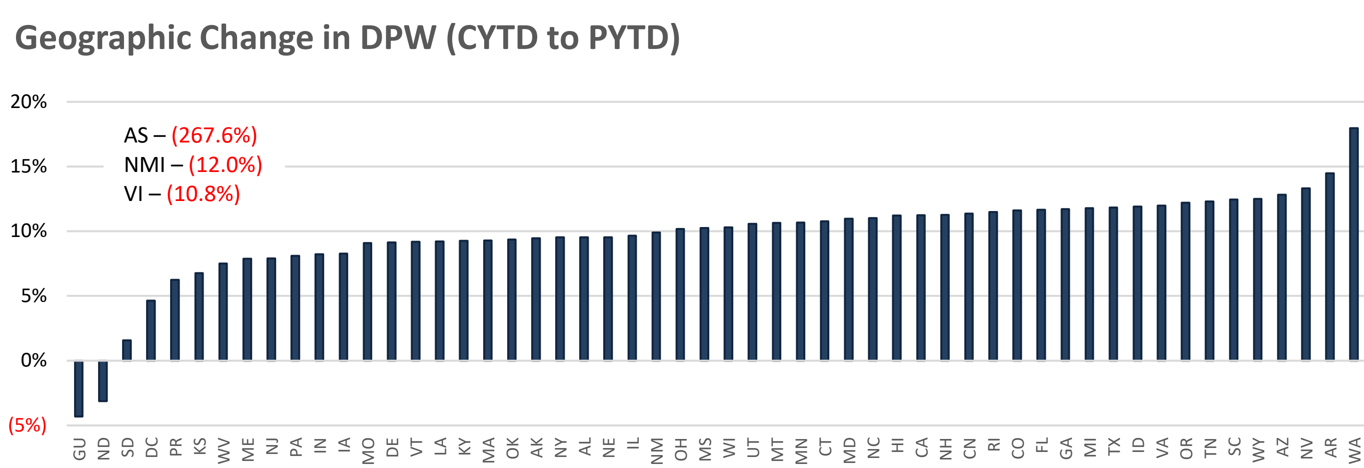
P&C insurers will face several challenges in the remainder of the year. The 2024 hurricane season was predicted to be active and severe convective storms continued to account for the majority of natural disasters over the last year. Reinsurance capacity is strained and costs are higer. Lastly, investment returns are likely to be impacted by a higher interest rate environment. Despite these challenges, the industry is positioned to grow due to record capital levels.

WRITINGS

Direct premiums written (DPW) increased 10.5% to $529.0 billion in the first half of 2024 compared to $478.6 billion for the same period in 2023. Premium growth in the personal lines segment was the primary driver, increasing 14.9%, with auto and homeowners recording double-digit percentage increases. All major commercial lines also recorded premium growth, except for workers' compensation, where profitability and increased competition brought rates down. Commercial auto liability and physical damage were the commercial lines with the highest percentage growth at 12.2% and 14.9%, respectively. The chart below shows the DPW for the industry's top lines of business for the last three mid-year periods.

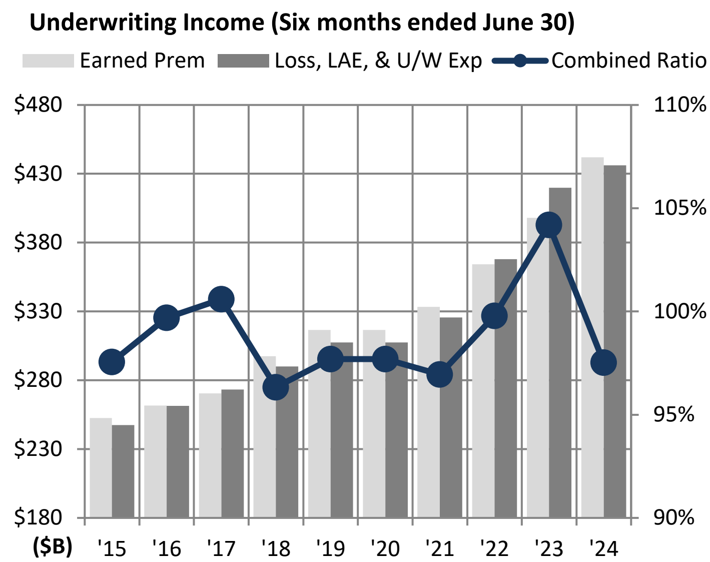


Geographically, nearly all states and territories experienced DPW growth. California recorded the greatest market share at 11.5% and DPW increased 11.3% YoY. Both Texas and Florida recorded the next highest market share at 9.8% and 9.3%, respectively, and each saw premium increases of over 11.0%. Not included on the bar chart were results from three of the territories, American Samoa, Northern Mariana Islands, and the Virgin Islands that recorded premium declines of 267.6%, 12.0%, and 10.8%, respectively.



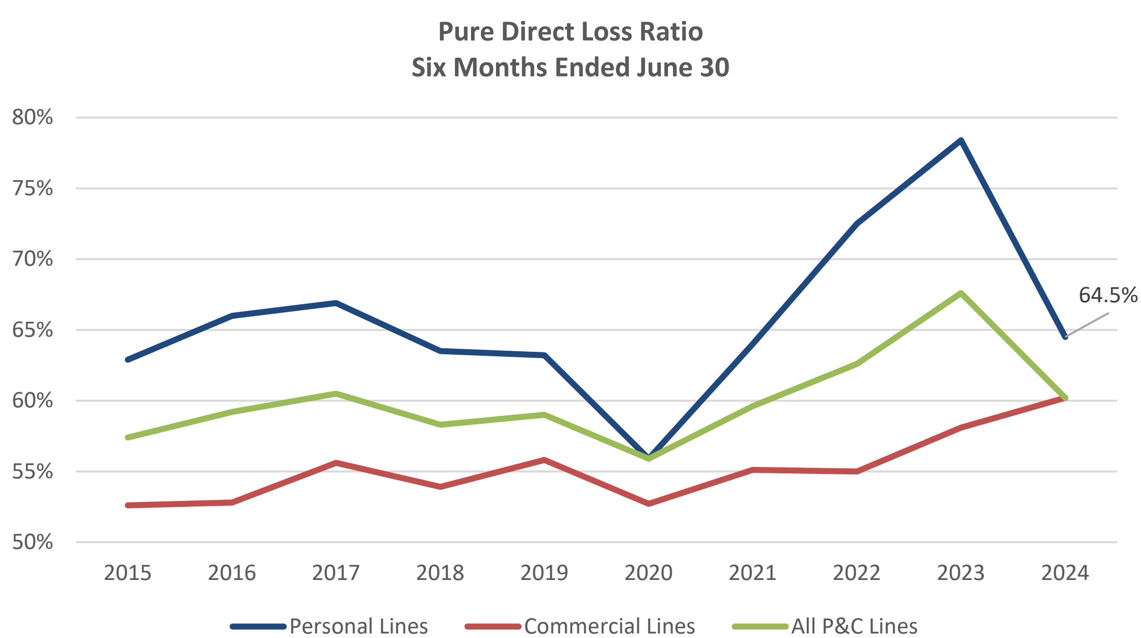
UNDERWRITING OPERATIONS

The P&C industry rebounded from a $22.4 billion underwriting loss for the first half of last year to a $5.6 billion underwriting gain for the first half of 2024. This recovery was driven by robust growth in earned premiums and lower incurred losses in personal lines.



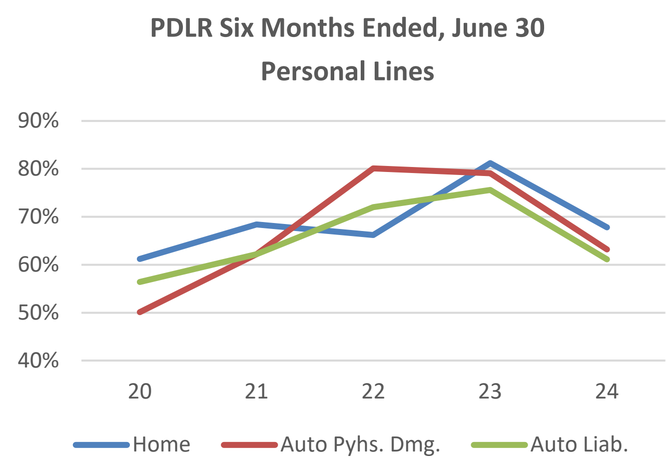
For the current period, net premiums earned increased 11.1% to $442.1 billion, while net losses and LAE incurred increased only 2.3% to $319.8 billion, resulting in a 6.2-point improvement in the net loss ratio to 72.3%. The expense ratio improved 0.4-points to 24.8% as net premium written growth of 10.3% outpaced the increase in underwriting expenses. Overall, the combined ratio improved 6.7-points to 97.5%.

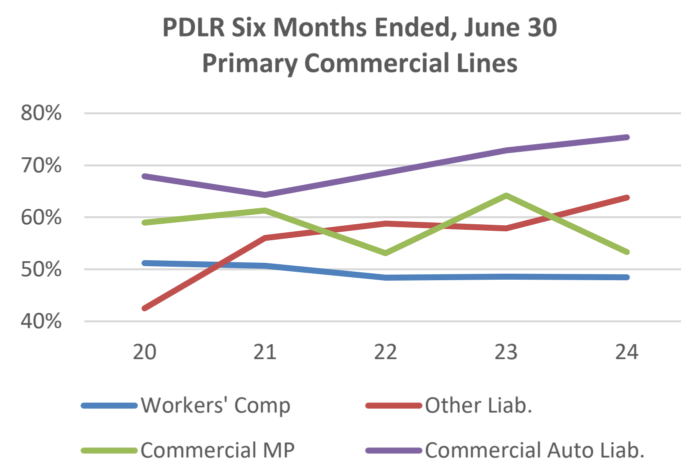
After two years of poor performance due to above-average catastrophe losses, higher replacement costs, and inflationary pressures, the industry's strong premium gains and easing claims costs contributed to the positive turnaround so far in 2024. The personal lines segment was the main driver of this growth and profitability as direct premiums earned were up 15.5% compared to mid-year 2023, while direct losses incurred were 5.0% lower. This led to a 13.9-point improvement in the pure direct loss ratio (PDLR) to 64.5%. In contrast, direct premium earned in commercial lines increased 3.6%, while direct losses incurred were 7.2% higher, resulting in a moderate deterioration in the PDLR to 60.2%. The chart below shows the PDLR by segment for the last ten mid-year periods.



Within the personal lines segment, insurers continue to increase rates in order to recover from poor performance in recent years due to inflation and higher natural catastrophe losses. This has resulted in significant premium growth. At the same time, claims costs are lower compared to the prior year to date. Personal auto claims severity is moderating, evidenced by an 8.0% decline in direct losses incurred in the liability line and a 4.5% improvement in the physical damage line, leading the way for a drastic improvement in the PDLR's. Rate increases have caught up with inflation in the homeowners line as direct premiums earned were up 13.9% while direct losses incurred were down 4.8%.

Based on industry assessments, insured losses from natural disasters totaled $34 billion in the first half of the year, contributing 7.7-points to the net loss ratio. Although this number is elevated relative to historical averages, it is down from $40 billion a year earlier. In 2023 and into the first half of the current year, the majority of losses have stemmed from severe convective storms, placing more pressure on home insurers due to the higher frequency of these events seen in the last few years.



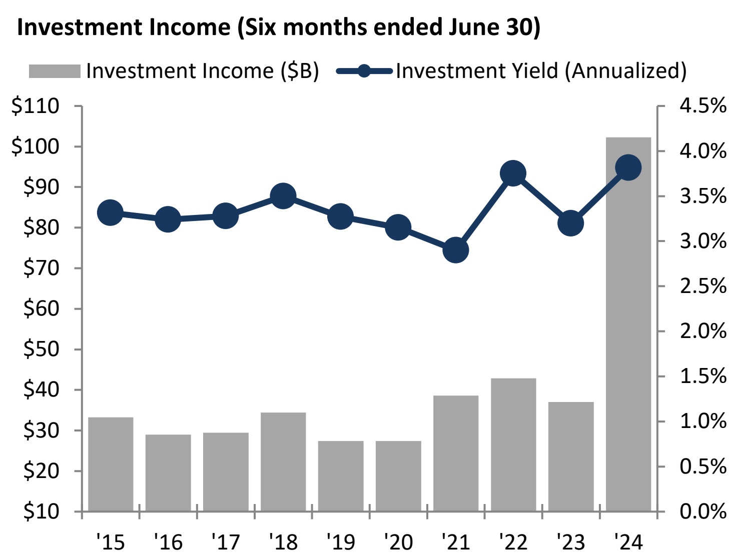


Commercial lines earned premium growth has been more tempered, primarily due to single digit rate increases and large variations across different business lines. Overall, underwriting results were slightly worse compared to last year primarily due to increased losses in commercial auto liability and other liability lines, which have been impacted by social inflation. In contrast, commercial multiple peril experienced lower incurred losses in the property portion and workers' compensation continued to benefit from a trend of prior year reserve releases.

INVESTMENT OPERATIONS

Investment gains were 176.0% higher than the first half of last year, totaling $102.3 billion for the six months ended June 30, 2024. Realized gains jumped to $58.4 billion from $2.3 billion last year, driven by a single transaction netting a $50.0 billion gain for one insurer. Net investment income earned was also higher, up 26.2% to $43.8 billion, which drove an increase in the investment yield (annualized) to 3.81%.

Bonds remained the primary vehicle for investment income, which leaves insurers exposed to interest rate risk. To combat inflation, the U.S. Federal Reserve (Fed) increased the federal funds rate to 5.5% in 2023. As inflation eased, the Fed cut the rate by 50 basis points in September 2024, bringing the benchmark rate down to a target range of 4.75-5.0%. Another rate cut of 25 basis points is anticipated at the November meeting.

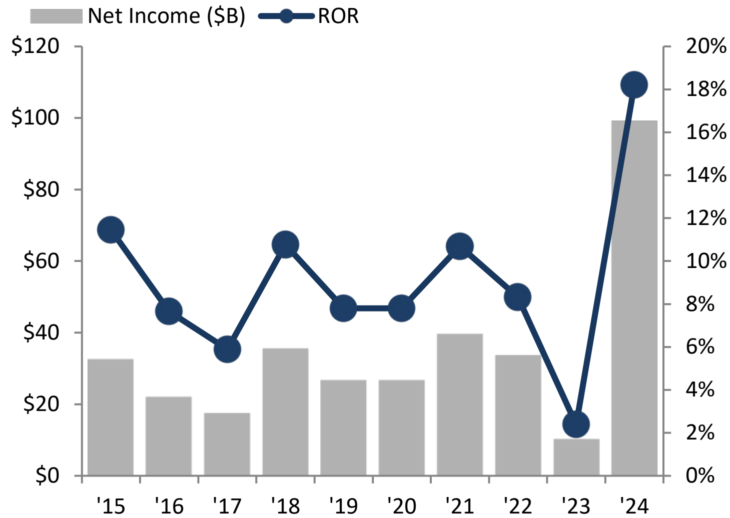


NET INCOME

Net income surged by over 800% compared to the same period last year to $99.1 billion. While the $28 million swing from underwriting loss to a gain contributed to this, the primary driver was the dramatic jump in investment gains, driven by the $50.0 billion gain from a one-off transaction by one company.

Return on revenue of 18.2% was 15.8-points higher compared to last year's 2.4%.

Net Income (Six months ended June 30)

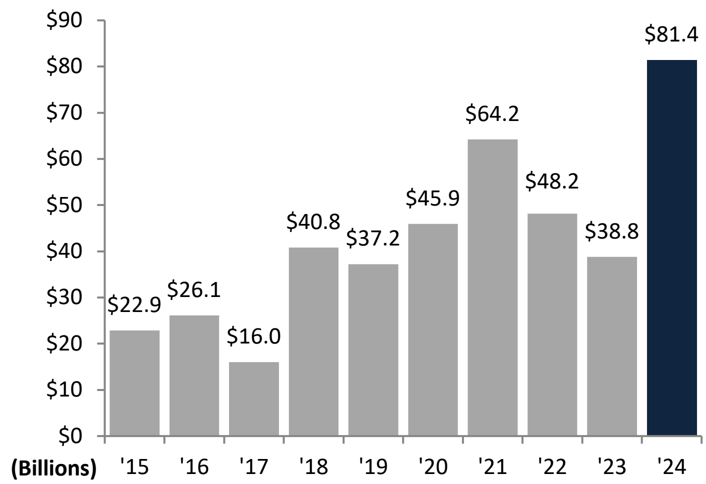


CASH FLOW & LIQUIDITY

Net cash provided by operating activities more than doubled compared to the same period in 2023 to $81.4 billion. The increase stemmed primarily from a 9.7% increase in premiums collected net of reinsurance, and a 3.1% decrease in benefit and loss related payments reflecting lower loss costs.

The liquidity ratio improved one percentage point to 79.0%. Cash and invested assets increased 9.2% while total liabilities increased at a lesser pace of 6.4%.

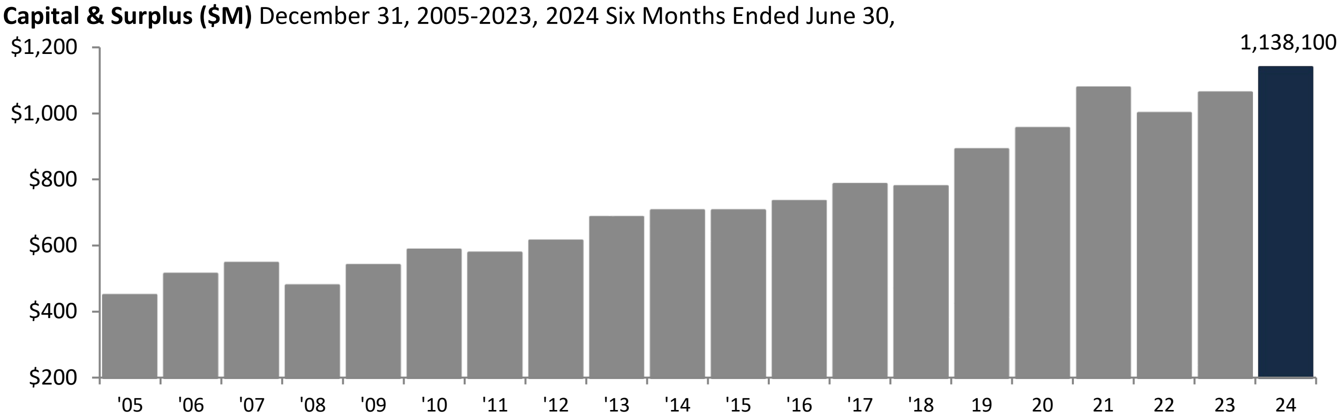
Cash from Operations (Six months ended June 30)



CAPITAL & SURPLUS

Industry aggregated policyholders' surplus (adjusted to eliminate stacking) reached an all-time high of $1.14 trillion at June 30, 2024, a 7.1% increase compared to $1.06 trillion at December 31, 2023. The large net gain in the current period offset unrealized investment losses of $6.7 billion. Over twenty consecutive years of profits have helped drive surplus up over 150% since December 31, 2005.

Capital & Surplus ($M) December 31, 2005-2023, 2024 Six Months Ended June 30,

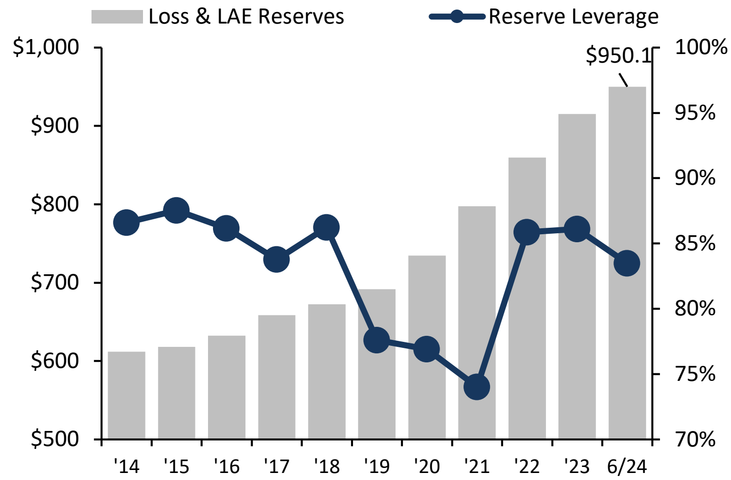


RESERVES

Loss and LAE reserves increased 3.8% since the prior year-end to $950.1 billion at June 30, 2024, and was comprised of $800.6 billion in unpaid losses and $149.6 billion of unpaid LAE. For the current period, reserve leverage improved 2.6-points to 83.5% compared to 86.1% at the prior year-end attributable to the increase in surplus.

The trend in net favorable loss reserve development continued with an overall redundancy of $7.8 billion in the first half of 2024. This consisted of a $67.3 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $59.5 billion deficiency in prior year known case loss and LAE reserves.

Loss & LAE Reserves ($B)



Title Industry

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

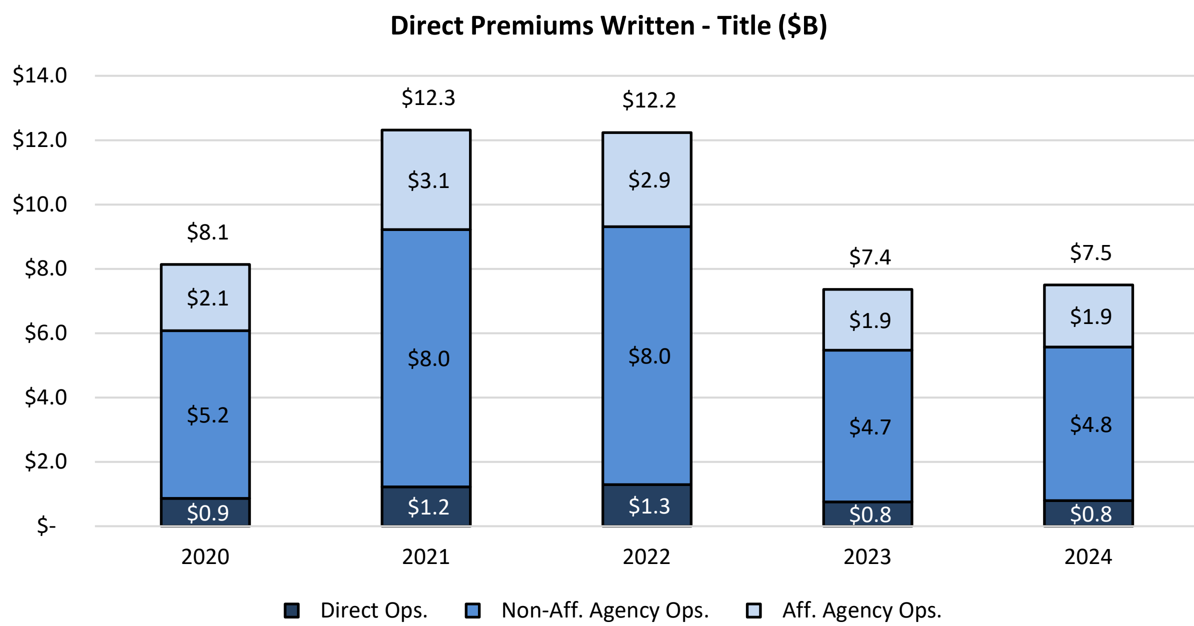
For the six months ended June 30,	YoY Chg.	2024	2023	2022	2021	2020
Direct Premiums Written	2.0%	$7,504	$7,356	$12,234	$12,315	$8,136
Direct Ops.	6.2%	$797	$751	$1,292	$1,226	$863
Non-Aff. Agency Ops.	1.2%	$4,772	$4,715	$8,022	$7,997	$5,211
Aff. Agency Ops.	2.3%	$1,934	$1,890	$2,919	$3,092	$2,063
Premiums Earned	1.5%	$7,553	$7,438	$11,988	$11,969	$8,034
Loss & LAE Incurred	3.1%	$374	$363	$313	$285	$255
Operating Exp Incurred	2.2%	$7,486	$7,324	$11,461	$11,454	$7,828
Net Operating Gain/(Loss)	(13.4)%	$275	$317	$1,085	$1,190	$633
Loss Ratio	0.1-pts	5.0%	4.9%	2.6%	2.4%	3.2%
Expense Ratio	0.6-pts	99.1%	98.5%	95.6%	95.7%	97.5%
Combined Ratio	0.7-pts	104.1%	103.4%	98.2%	98.1%	100.6%
Net Inv. Income Earned	(6.0)%	$258	$274	$177	$168	$203
Net Realized Gain/(Loss)	NM	$89	($21)	$77	$25	($26)
Net Inv. Gain (Loss)	36.6%	$346	$254	$254	$193	$178
Net Income	10.7%	$524	$473	$1,093	$1,108	$675
Net Unrealized Gain/(Loss)	NM	($17)	$14	($667)	$270	($187)
Net Cash from Operations	108.9%	$288	$138	$879	$1,286	$689

NM=Not Meaningful

Premium

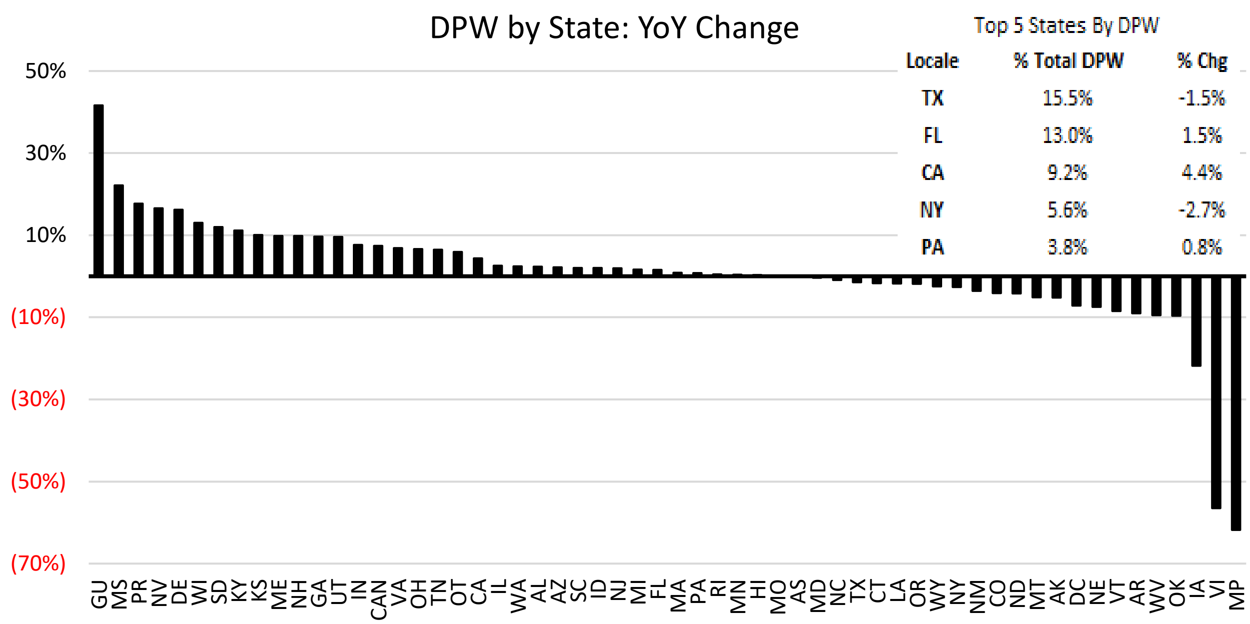
The Monthly New Residential Construction, August 2024 report from the U.S. Census Bureau and the U.S. Department of Housing and Urban Development showed housing starts were up 3.9% (±13.0%) from August 2023, which was primarily seen in the Midwest region. Across all regions, housing completions increased 30.2% (±31.9%) over the past year, while permits decreased by 6.5%.

The U.S. title insurance business reflected this small increase in starts as direct premiums written (DPW) increased 2.0%, or $147.6 million to $7.5 billion for the first half of 2024. Following previous years, the majority (approximately 64%) of DPW continued to be produced through non-affiliated agency operations, as displayed in the chart below.



The title market continues to concentrate business into four main groups, which provide approximately 80% of total DPW. Fidelity National, the largest insurance group, owns two of the top five companies and wrote $2.4 billion (31.9%) in DPW. First American wrote $1.8 billion (23.8%) in DPW, Old Republic wrote $1.1 billion (14.2%), and Stewart wrote $0.8 billion (10.3%). The remaining groups accounted for less than 3% of the market each, and insurers without a group affiliation accounted for 13.9% ($1.0 billion) of the market.

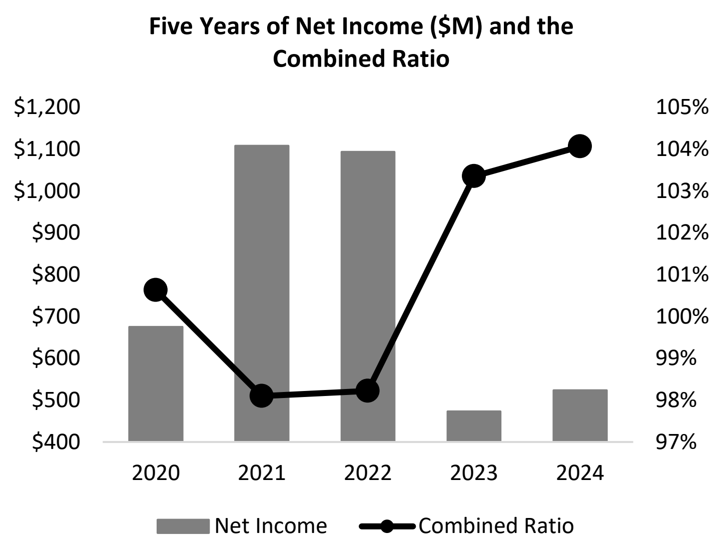
The five largest states by DPW (TX, FL, CA, NY, and PA) remained the same as mid-year 2023. Together, these five states represented 47.1% of the market during the first half of 2024, down only 0.2 points compared to the prior year. Over half of the 58 U.S. states and territories experienced premium growth compared to mid-year 2023.



Profitability

The industry recorded a net operating gain of $275.0 million for the first half of 2024, a 13.4% decrease compared to the prior year period. Operating income increased 1.6% to $8.1 billion, primarily driven by a 1.5% increase in premiums earned to $7.6 billion. However, total operating expenses increased 2.2% to $7.9 billion, primarily due to a 2.2% increase in operating expenses incurred to $7.5 billion, and to a lesser extent, a 3.1% increase in losses and LAE incurred to $374.0 million.

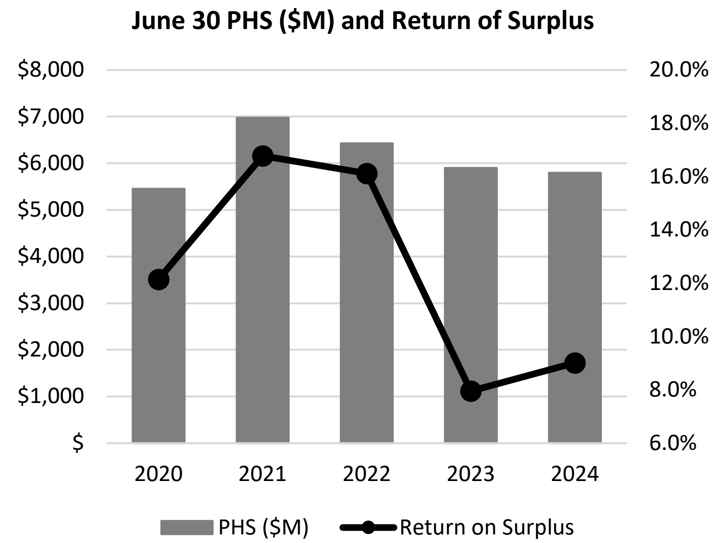
The mid-year combined ratio worsened 0.7 points to 104.1% and was comprised of a net loss ratio of 5.0% (worsened 0.1 points) and an expense ratio of 99.1% (worsened 0.6 points), which represented the highest mid-year level in ten years. The combined ratio has worsened year-over-year for the last four mid-year periods due to an increasing trend in both the net loss and expense ratios.



A net investment gain of $346.4 million was 36.6% higher compared to the prior year period. While net investment income earned decreased 6.0% to $257.7 million, net realized capital gains increased to $88.7 million (compared to a $20.6 million loss for the first half of 2023). The investment gain helped offset the decreased operating gain, which resulted in a 10.7% increase in net income to $523.7 million.

Capital & Surplus

Policyholders' surplus (PHS) decreased 1.7% since 2023 to $5.8 billion, largely due to $432.9 million dividends to stockholders, a $107.4 million increase in nonadmitted assets, and $16.6 million unrealized capital losses, which among lessor factors, offset net income. While dividends to stockholders contributed to the surplus decline, it was noted that industry-wide dividend payments were lower compared to mid-year 2023. The return on surplus ratio increased 1.0 points YoY, as net income improved and the PHS decline was immaterial.



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