2013 Property/Casualty & Title Insurance Industry Report

Property/Casualty Industry at a Glance

Net profits in the U.S. property/casualty insurance industry increased 91.5% to $69.9 billion in 2013 compared to $36.5 billion in 2012. The surge in profits stemmed from vastly improved underwriting performance as moderate rate increases and lower catastrophe losses propelled the industry to a net underwriting gain of $20.8 billion and produced a combined ratio of 95.7%—measures not seen since 2007. In addition to the impressive underwriting performance, the industry recorded a net investment gain of $64.9 billion despite a pro-longed period of low interest rates that has only slightly lowered investment yields. Policyholders' surplus rose to $665.2 billion as net income, along with net unrealized gains of $22.9 billion were partially offset by stockholder dividends totaling $40.8 billion. The remarkable profits generated in 2013 attributed to a return on surplus of 14.6%—a ten year high. The increase in earned premiums coupled with lower incurred losses led to a 51.1% increase in net cash provided by operating activities to $58.6 billion. The industry's liquidity position was further strengthened by the positive cash flow and resulted in a liquidity ratio of 78.0%.

Table 1. Property & Casualty Insurance Industry Results

($ in Billions)	Chg.	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Writings											
Direct Premiums Written	3.6%	$541.2	$522.5	$500.6	$483.0	$481.2	$496.5	$508.7	$503.0	$491.2	$480.7
Assumed Premiums Written	2.7%	$386.6	$376.3	$355.4	$346.9	$355.3	$365.4	$359.9	$358.4	$357.1	$332.4
Net Premiums Written	4.0%	$484.3	$465.8	$446.6	$432.3	$428.3	$446.6	$455.6	$455.9	$438.7	$438.6
Operations											
Net Premiums Earned	3.6%	$474.4	$457.9	$442.8	$430.6	$432.7	$450.5	$453.5	$447.7	$430.7	$428.2
Net Loss & LAE Incurred	(6.5%)	$318.3	$340.5	$352.0	$317.4	$313.4	$348.7	$308.6	$293.4	$321.8	$312.5
Other Underwriting Expenses	3.8%	$135.8	$130.8	$124.8	$122.7	$120.7	$122.7	$123.1	$119.8	$111.8	$109.6
Net Underwriting Gain/(Loss)	NM	$20.8	($13.8)	($35.5)	($8.8)	$0.9	($19.6)	$22.6	$34.5	($3.5)	$5.9
Net Loss Ratio	(7.3) pts	67.1%	74.4%	79.5%	73.7%	72.4%	77.4%	68.1%	65.5%	74.7%	73.0%
Expense Ratio	(0.2) pts	27.9%	28.2%	28.3%	28.2%	27.6%	27.2%	26.8%	26.3%	25.6%	25.0%
Dividend Ratio	0.0 pts	0.7%	0.6%	0.5%	0.7%	0.6%	0.6%	0.7%	0.9%	0.5%	0.5%
Combined Ratio	(7.5) pts	95.7%	103.2%	108.3%	102.6%	100.6%	105.2%	95.6%	92.7%	100.9%	98.5%
Net Investment Income Earned	(3.8%)	$46.2	$48.0	$49.0	$47.6	$47.7	$52.3	$55.6	$51.6	$48.0	$39.5
Net Realized Gain/(Loss)	107.1%	$18.7	$9.0	$7.8	$8.2	($8.2)	($20.7)	$9.1	$3.6	$12.2	$9.3
Investment Yield	(0.3) pts	3.3%	3.6%	3.7%	3.7%	3.9%	4.2%	4.4%	4.4%	4.4%	4.0%
Net Cash from Operations	51.1%	$58.6	$38.7	$18.0	$34.9	$31.9	$38.9	$72.7	$86.1	$77.9	$93.5
Liquidity Ratio	(3.6) pts	78.0%	81.6%	82.4%	80.5%	80.7%	85.8%	80.0%	85.7%	90.3%	91.0%
Net Income	91.5%	$69.9	$36.5	$18.3	$36.4	$30.2	$1.7	$63.3	$64.2	$44.9	$37.6
Return on Revenue	5.9 pts	13.0%	7.1%	3.7%	7.5%	6.4%	0.4%	12.2%	12.8%	9.2%	7.9%
Capital & Surplus											
Policyholders' Surplus	10.4%	$665.2	$602.3	$573.3	$579.1	$543.5	$474.1	$529.7	$479.6	$427.0	$397.6
Return on Surplus	7.8 pts	14.6%	6.9%	1.0%	8.8%	9.7%	(13.9%)	9.4%	14.2%	10.9%	10.1%

NM = Not Meaningful

DISCLAIMER

The NAIC 2013 Property & Casualty and Title Insurance Industry Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of December 31, 2013, and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.

Market Conditions

The U.S. property/casualty insurance industry benefited from no major hurricanes and ultimately lower catastrophe losses in 2013. Underwriting profits soared to double digits and the combined ratio fell below 100%, a feat not seen since 2007. Profit margins surged to record highs, further strengthening an already very well capitalized industry. Capital adequacy is abundant, measured by—net written premiums to policyholders' surplus—where it has continued to strengthen over the last ten years, see **Figure 1**. This has led to a more competitive marketplace as insurers sought higher premium volumes through expansion and/or mergers and acquisitions. In effect, this has resulted in fewer property/casualty filers to the NAIC, seen in **Figure 2.** The number of filers fell from 2,846 in 2008 to 2,643 in 2013, for a net change of minus 203 filers**.**

Since 2008, there have been 134 reported mergers or acquisitions, 77 insurers that voluntarily went out of business, 76 insurers entering rehabilitation or liquidation, partially offset by 166 new filers. Also, there are currently 75 insurers that remain active but have not yet filed to the NAIC.

Figure 1. Net Writings Leverage

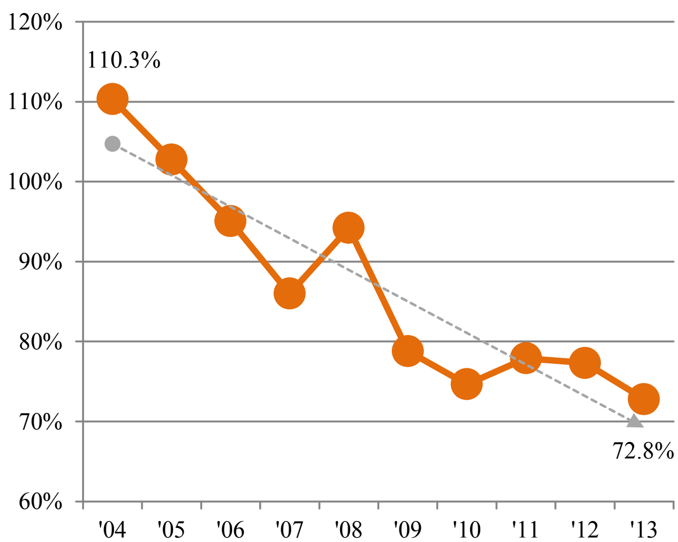
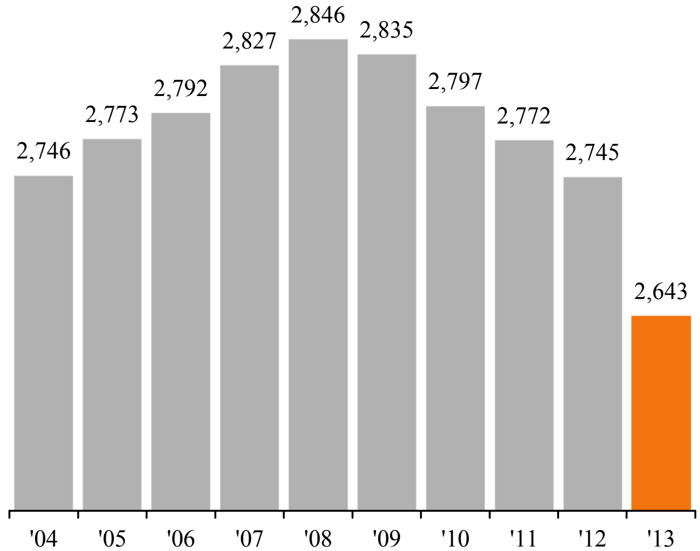


Figure 2. Number of Property/Casualty Filers



Premium

Seen in **Table 2**, direct premiums written increased 3.6% to $541.2 billion in 2013 compared to $522.5 billion in 2012. Sequentially, direct writings increased for 15 consecutive quarters over prior-year-quarters, but a slowdown occurred in 4Q-2013 as premiums only increased by 1.8% versus an average 3.3% increase during the 15-quarter span. This was particularly evident in the commercial market which only saw an average increase of 1.0% in fourth quarter after averaging a 4.6% increase in the last 12 consecutive quarters of growth. According to the most recent Commercial P/C Pricing Survey by The Council of Insurance Agents & Brokers (CIAB), average commercial rate increases began to decline in 2013 and ended the year with an average 2.1% increase.

All three markets (Personal, Commercial, and Combined) experienced year-over-year direct premium growth, led by a 3.8% or $9.8 billion increase in the personal market to $269.0 billion, followed by a 4.3% or $8.2 billion increase in the commercial market to $201.1 billion, and a 1.0% or $0.7 billion increase in the combined market to $71.1 billion. On a sequential basis, direct writings have increased for 20 consecutive quarters over prior-year-quarters in the personal market; 12 consecutive quarters in the commercial market; while the combined market experienced a contraction in direct writings in the last quarter to prior-year-quarter.

On a geographic basis, all states and the District of Columbia, except for Delaware, experienced year-over-year

Table 2. Premium Written

($ Billions)	Chg.	2013	2012	2011	2010	2009
Direct	3.6%	$541.2	$522.5	$500.6	$483.0	$481.2
Assumed	2.7%	$386.6	$376.3	$355.4	$346.9	$355.3
Gross	3.2%	$927.8	$898.8	$856.0	$829.9	$836.4
Ceded	2.4%	$443.5	$433.0	$409.4	$397.6	$408.1
Net	4.0%	$484.3	$465.8	$446.6	$432.3	$428.3

PREMIUM (CONT'D.)

direct premium growth. North and South Dakota led all states with a 10.3% and 9.2% growth rate, respectively. From a regional perspective the South had the highest growth rate of 5.4%, followed by a 5.3% in the West, 5.2% in the Midwest, and 4.3% in the Northeast.

Assumed premium written increased 2.7% to $386.6 billion, of which 88.1% was comprised of affiliated business and 11.9% non-affiliated business. U.S. intercompany pooling comprised the majority of assumptions totaling $272.9 billion for the year or 70.6% of total assumptions.

Ceded premiums written increased 2.4% to $443.5 billion in 2013 compared to $433.0 billion in 2012 to arrive at net premiums written of $484.3 billion (52.2% net retention). Sequentially, net writings increased for 15 consecutive quarters over prior-year-quarters, during which time has averaged a 3.4% increase per quarter. **Table 3** shows net premiums written by line of business and by market for the last two years.

Personal Lines

Personal lines net premiums written increased 4.8% to $252.7 billion (52.2% of total net premiums written) in 2013 compared to $241.2 billion in 2012. All three personal lines experienced year-over-year comparable growth, lead by a 6.7% or $4.6 billion increase in homeowners multiple peril line to $72.5 billion; a 3.8% or $3.9 billion increase in private passenger auto liability line to $107.4 billion; and a 4.3% or $3.0 billion increase in auto physical damage line to $72.7 billion.

Commercial Lines

Net premium growth within the commercial market continued for the fourth consecutive year with a 5.0% growth rate in 2013 to $170.4 billion (35.2% of total net premiums written). Premium volume was higher year-over-year for the top four commercial lines, led by a 9.4% or $3.6 billion increase in the other liability line to $41.9 billion and a 5.2% or $2.1 billion increase in workers' compensation line to $43.5 billion.

Combined Lines

The combined lines net premiums written decreased 1.6% to $61.2 billion (12.6% of total net premiums written). The decrease was mostly attributed to a 14.5% decline in the reinsurance lines to $13.5 billion. A 9.2% increase in mortgage guaranty net premiums to $4.3 billion represented the first year-over-year increase within the line since the economic downturn.

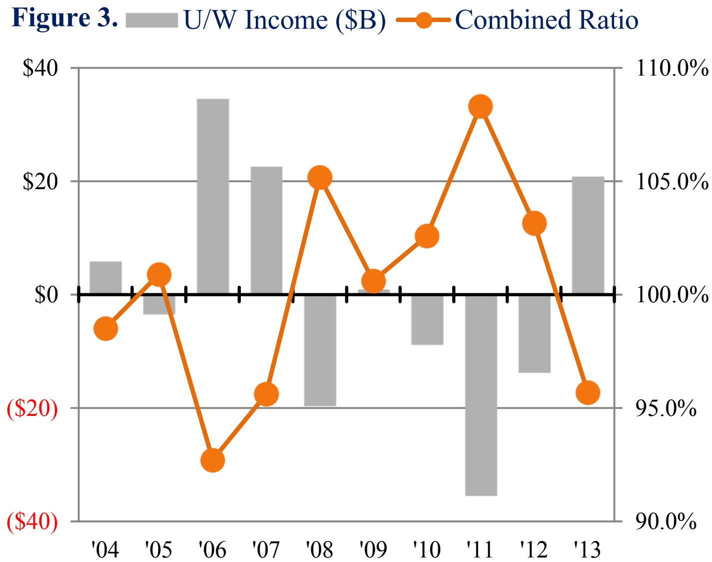
Table 3. Net Premiums Written

($ Billions)	% Chg.	$ Chg.	2013	2012
Personal Lines	4.8%	$11.5	$252.7	$241.2
Commercial Lines	5.0%	$8.1	$170.4	$162.3
Combined Lines	(1.6%)	($1.0)	$61.2	$62.3
Total Property/Casualty	4.0%	$18.5	$484.3	$465.8
Personal Lines				
Prvt. Psgr. Auto Liability	3.8%	$3.9	$107.4	$103.5
Auto Physical Damage	4.3%	$3.0	$72.7	$69.7
Homeowners	6.7%	$4.6	$72.5	$68.0
Commercial Lines				
Workers' Compensation	5.2%	$2.1	$43.5	$41.3
Other Liability	9.4%	$3.6	$41.9	$38.3
Commercial Multiple Peril	4.2%	$1.3	$32.7	$31.4
Commercial Auto Liability	7.1%	$1.2	$18.2	$17.0
Medical Prof Liability	(3.0%)	($0.3)	$8.5	$8.7
Surety	3.5%	$0.2	$4.9	$4.7
Group A&H	(6.3%)	($0.3)	$4.6	$4.9
Farmowners	7.1%	$0.2	$3.5	$3.3
Ocean Marine	5.6%	$0.1	$2.9	$2.7
Products Liability	5.4%	$0.1	$2.7	$2.6
Boiler & Machinery	4.9%	$0.1	$2.0	$1.9
Credit	(19.9%)	($0.3)	$1.2	$1.5
Fidelity	2.1%	$0.0	$1.1	$1.1
Aircraft (all perils)	(8.0%)	($0.1)	$1.1	$1.2
Excess Workers' Comp	3.5%	$0.0	$0.8	$0.8
Financial Guaranty	(7.1%)	($0.1)	$0.7	$0.8
Burglary & Theft	(6.4%)	($0.0)	$0.2	$0.2
Combined Lines				
Allied Lines	4.3%	$0.6	$15.3	$14.7
Reins (Nonproportional)	(14.5%)	($2.3)	$13.5	$15.8
Fire	3.4%	$0.4	$11.3	$11.0
Inland Marine	5.6%	$0.5	$10.1	$9.6
Mortgage Guaranty	9.2%	$0.4	$4.3	$4.0
Other A&H	(7.8%)	($0.2)	$2.8	$3.0
Earthquake	(1.7%)	($0.0)	$1.6	$1.6
Warranty	(16.7%)	($0.2)	$1.2	$1.4
Aggregate Write-Ins	(12.1%)	($0.1)	$1.0	$1.1
International	6.7%	$0.0	$0.1	$0.1
Credit A&H	(7.9%)	($0.0)	$0.1	$0.1

Insurance Operations

The industry rebounded from 2012 net underwriting losses of $13.8 billion to post a net underwriting gain totaling $20.8 billion for 2013. The improvement was largely due to a combination of a 3.6% increase in net premiums earned to $474.4 billion and a 6.5% decrease in aggregated net losses and net loss adjustment expenses (LAE) incurred to $318.3 billion. The decrease in losses and LAE incurred was mainly the result of continued underwriting discipline and the lack of catastrophe losses. Underwriting income comprised 29.8% of the industry's overall net profit for the year. **Figure 3** below, shows the industry's underwriting trend for the last ten years.

Figure 3.



Reflecting on the underwriting performance, the combined ratio improved 7.5-percentage points to 95.7% in 2013 compared to 103.2% in 2012. This improvement primarily stemmed from the increase in net premiums earned and the aggregated decrease in net losses and net LAE incurred that produced a net loss ratio of 67.1% for the year compared to a net loss ratio of 74.4% for the prior year. A nominal decrease in the expense ratio of 0.2-percentage points to 27.9% was caused by the 4.0% increase in net premiums written that exceeded a 3.8% increase in other underwriting expenses to $135.8 billion.

Looking at the underwriting performance by state, **Table 4** shows the pure direct loss ratio (PDLR) by state for the last five years. Oklahoma recorded the highest PDLR at 85.1% due to severe storms. Michigan recorded the second highest PDLR at 82.7% that was driven by its private passenger auto liability no-fault (PIP) line. However, given the low catastrophe losses for the year, the average PDLR improved 7.6-percentage points to 55.7% for all states.

Table 4. Pure Direct Loss Ratio

State	2013	2012	2011	2010	2009
Alabama	51.5%	58.0%	109.3%	60.3%	68.0%
Alaska	37.6%	42.7%	44.3%	42.4%	47.4%
Arizona	53.8%	59.9%	76.8%	85.4%	61.8%
Arkansas	55.1%	53.1%	73.6%	61.6%	71.5%
California	55.6%	57.4%	55.0%	53.9%	51.7%
Colorado	69.9%	72.0%	61.9%	63.7%	73.0%
Connecticut	55.0%	60.1%	73.4%	56.7%	55.2%
Delaware	40.3%	84.7%	50.9%	51.1%	68.8%
Dist. of Columbia	47.8%	44.8%	63.5%	64.0%	110.4%
Florida	42.5%	46.3%	48.3%	50.5%	50.9%
Georgia	61.8%	57.2%	65.6%	60.4%	77.6%
Hawaii	40.4%	37.1%	36.0%	37.0%	36.3%
Idaho	54.2%	55.4%	52.3%	52.0%	60.0%
Illinois	62.4%	68.8%	65.3%	64.2%	65.4%
Indiana	59.0%	76.3%	62.5%	52.6%	60.8%
Iowa	73.0%	75.9%	65.8%	61.4%	61.9%
Kansas	65.9%	75.8%	85.7%	51.5%	61.9%
Kentucky	51.1%	83.9%	63.5%	60.9%	72.3%
Louisiana	53.6%	58.6%	51.7%	48.1%	46.2%
Maine	50.6%	44.5%	47.6%	48.0%	50.5%
Maryland	56.8%	62.9%	66.7%	72.4%	62.1%
Massachusetts	49.0%	52.1%	61.8%	52.3%	49.2%
Michigan	82.7%	86.8%	93.4%	80.4%	79.5%
Minnesota	67.1%	53.0%	63.5%	63.9%	59.8%
Mississippi	75.2%	50.5%	63.3%	54.1%	50.4%
Missouri	54.8%	77.7%	93.9%	57.2%	58.2%
Montana	53.2%	51.4%	56.9%	74.5%	66.9%
Nebraska	73.7%	84.1%	67.1%	60.7%	58.4%
Nevada	63.2%	60.5%	61.6%	65.5%	60.1%
New Hampshire	51.0%	51.0%	51.7%	53.8%	55.7%
New Jersey	61.6%	101.7%	71.1%	59.2%	60.6%
New Mexico	64.7%	63.4%	63.9%	58.1%	52.9%
New York	47.8%	86.6%	65.6%	68.7%	72.2%
North Carolina	50.6%	56.3%	77.6%	55.4%	56.4%
North Dakota	73.0%	36.8%	105.4%	50.1%	47.4%
Ohio	50.2%	62.8%	62.8%	55.4%	58.0%
Oklahoma	85.1%	72.2%	74.5%	94.6%	80.8%
Oregon	52.2%	54.9%	53.4%	55.9%	59.6%
Pennsylvania	53.1%	60.5%	64.0%	63.3%	57.1%
Rhode Island	54.1%	59.4%	62.2%	67.1%	53.3%
South Carolina	49.4%	53.5%	65.6%	56.8%	52.7%
South Dakota	62.3%	90.5%	68.3%	68.0%	52.2%
Tennessee	51.6%	66.5%	99.0%	70.6%	60.8%
Texas	54.9%	59.3%	63.4%	52.0%	59.6%
Utah	55.6%	54.6%	59.6%	50.1%	53.7%
Vermont	41.8%	41.4%	58.9%	53.8%	45.8%
Virginia	49.2%	57.7%	67.1%	56.4%	57.7%
Washington	52.1%	54.8%	53.4%	55.6%	60.7%
West Virginia	45.7%	57.3%	48.9%	59.8%	60.4%
Wisconsin	60.0%	57.7%	61.4%	62.7%	58.0%
Wyoming	52.5%	48.0%	70.9%	62.5%	54.7%

Insurance Operations (Cont'd.)

Table 5 provides the net underwriting performance by market and by line. As seen, the overall pure net loss ratio (PNLR) improved 6.9-percentage points to 55.1% as all three markets shown year-over-year improvements.

Personal Lines

In the personal market, net premiums earned increased 4.4% relative to 2012 to $247.7 billion, while net losses incurred decreased 2.2% to $148.0 billion, resulting in a 4.1-percentage point improvement in the PNLR to 59.7%. The majority of the improvement occurred within the homeowners line as the PNLR decreased 12.4-percentage points to 50.6%, due to a 14.6% drop in net losses incurred and 6.3% increase in net premiums earned compared to the year before. The PNLR for the private passenger auto liability and auto physical damage lines showed modest improvements to 63.7% and 62.8%, respectively.

Commercial Lines

The commercial lines PNLR improved 7.6-percentage points year-over-year to 49.6% (lowest in the last ten years) due to the combination of a 3.8% increase in net premiums earned to $166.9 billion and a 9.9% decrease in net losses incurred to $82.8 billion. As seen in the table, nearly all commercial lines experienced year-over-year improvements in the PNLR due to material declines in net losses incurred. Only three lines experienced increases in net losses incurred, commercial auto liability, products liability, and aircraft (all perils) lines, which resulted in higher PNLRs for these lines. The exception was the group A&H line, whereby net losses incurred decreased, but was exceeded by the decrease in earned premiums. The negative PNLR for the financial guaranty line was impacted by negative net losses incurred within a former financial guaranty writer that is currently going through a rehabilitation process.

Combined Lines

In the combined lines market, net premiums earned was down slightly, by 0.2% to $59.9 billion, but net losses incurred fell 24.3% to $30.8 billion, resulting in a 16.4-percentage point decrease in the PNLR to 51.4%. Most of the improvement occurred within allied lines due to a 31.4% decrease in net losses incurred attributed to lower flood losses compared to prior year's losses caused by Superstorm Sandy. For the first time in five years net premiums earned were higher for the mortgage guaranty line and net losses incurred were lower, leading to a significant improvement in the PNLR to 70.9%.

Table 5. Pure Net Loss Ratio

	Pt. Chg.	2013	2012	2011
Personal Lines	(4.1) pts	59.7%	63.8%	69.1%
Commercial Lines	(7.6) pts	49.6%	57.2%	58.9%
Combined Lines	(16.4) pts	51.4%	67.7%	79.2%
Total Property/Casualty	(6.9) pts	55.1%	62.0%	66.9%
Personal Lines				
Prvt. Psgr. Auto Liability	(0.0) pts	63.7%	63.7%	64.7%
Auto Physical Damage	(1.9) pts	62.8%	64.7%	64.8%
Homeowners	(12.4) pts	50.6%	63.0%	80.6%
Commercial Lines				
Workers' Compensation	(9.6) pts	58.4%	68.0%	70.9%
Other Liability	(4.9) pts	48.1%	53.0%	48.5%
Commercial Multi-Peril	(9.6) pts	48.2%	57.8%	63.8%
Commercial Auto Liability	0.4 pts	63.1%	62.7%	57.7%
Medical Prof Liability	(5.7) pts	36.1%	41.8%	35.2%
Surety	(2.6) pts	17.0%	19.6%	15.0%
Group A&H	2.2 pts	66.8%	64.6%	67.5%
Farmowners	(5.8) pts	54.1%	59.9%	78.3%
Ocean Marine	(18.2) pts	45.4%	63.6%	57.6%
Products Liability	27.9 pts	59.0%	31.1%	68.7%
Boiler & Machinery	(7.2) pts	33.6%	40.8%	37.4%
Financial Guaranty	(140.1) pts	(105.9%)	34.2%	137.6%
Credit	(21.2) pts	24.1%	45.4%	37.4%
Fidelity	(3.1) pts	52.0%	55.1%	58.2%
Aircraft (all perils)	6.3 pts	60.4%	54.1%	58.5%
Excess Workers' Comp	(73.7) pts	42.0%	115.7%	90.6%
Burglary & Theft	(8.1) pts	12.4%	20.5%	27.2%
Combined Lines				
Allied Lines	(30.3) pts	61.0%	91.3%	82.4%
Reins (Nonproportional)	(4.4) pts	44.0%	48.4%	82.6%
Fire	(6.7) pts	43.2%	49.9%	56.0%
Inland Marine	(9.0) pts	47.4%	56.4%	57.6%
Mortgage Guaranty	(91.3) pts	70.9%	162.2%	192.4%
Other A&H	(1.3) pts	81.8%	83.2%	83.1%
Earthquake	(5.8) pts	(0.3%)	5.5%	27.3%
Warranty	5.2 pts	77.8%	72.6%	72.3%
Aggregate Write-Ins	5.7 pts	36.2%	30.5%	47.1%
International	1.4 pts	31.7%	30.2%	47.8%
Credit A&H	(2.2) pts	17.5%	19.7%	10.2%

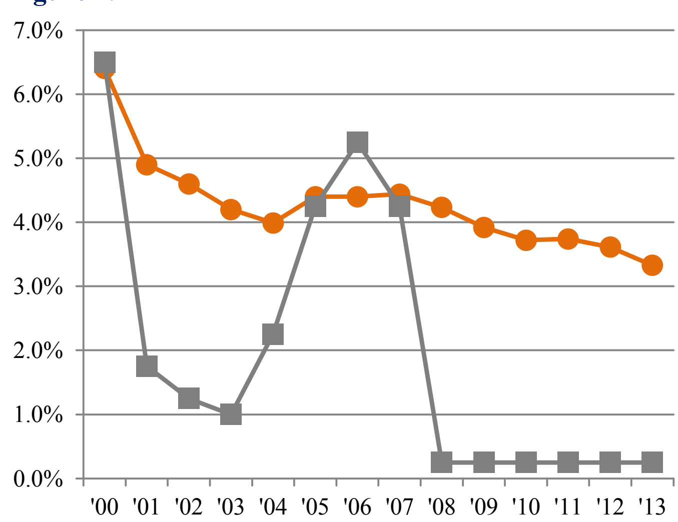
Investment Operations

Investment profits continued on a downward trajectory, albeit a slow one, due to the pro-longed low interest rate environment. The federal funds rate (FFR) has fallen from 5.25% in June 2006 to just 0.25% where it has held since December 2008. As a result, the industry's investment yield—a measure of net investment income earned to average cash and invested assets—decreased 110-basis points from 4.4% in 2006 to a 10-year low of 3.3% in 2013, shown in **Figure 4**. Overall, net investment income earned decreased 3.8% year-over-year to $46.2 billion while average cash and invested assets increased 4.4% to $1.4 trillion.

The industry continues to minimize the effect of the low interest rate environment by earning more investment income more from stocks and other invested assets than from bonds. **Figure 5**, below illustrates the change in investment income earned from 2008 (the start of the economic crisis), to 2013. In comparison, net investment income earned from bonds decreased by 19.3% to $34.8 billion while income earned from stocks increased 22.7% to $15.4 billion, and 121.6% from other invested assets to $8.1 billion.

Net realized capital gains doubled in 2013 to $18.7 billion from $9.0 billion in 2012. The majority of the gains (in pre-tax dollars) were derived from common stocks, with unaffiliated common stocks increasing by 203.9% to $9.1 billion and affiliated common stocks increasing by 287.7% to $6.9 billion. At the same time, realized gains from U.S. Government bonds fell 84.7% to just $188.9 million and realized gains from bonds as a whole were down 49.6% relative to the prior year.

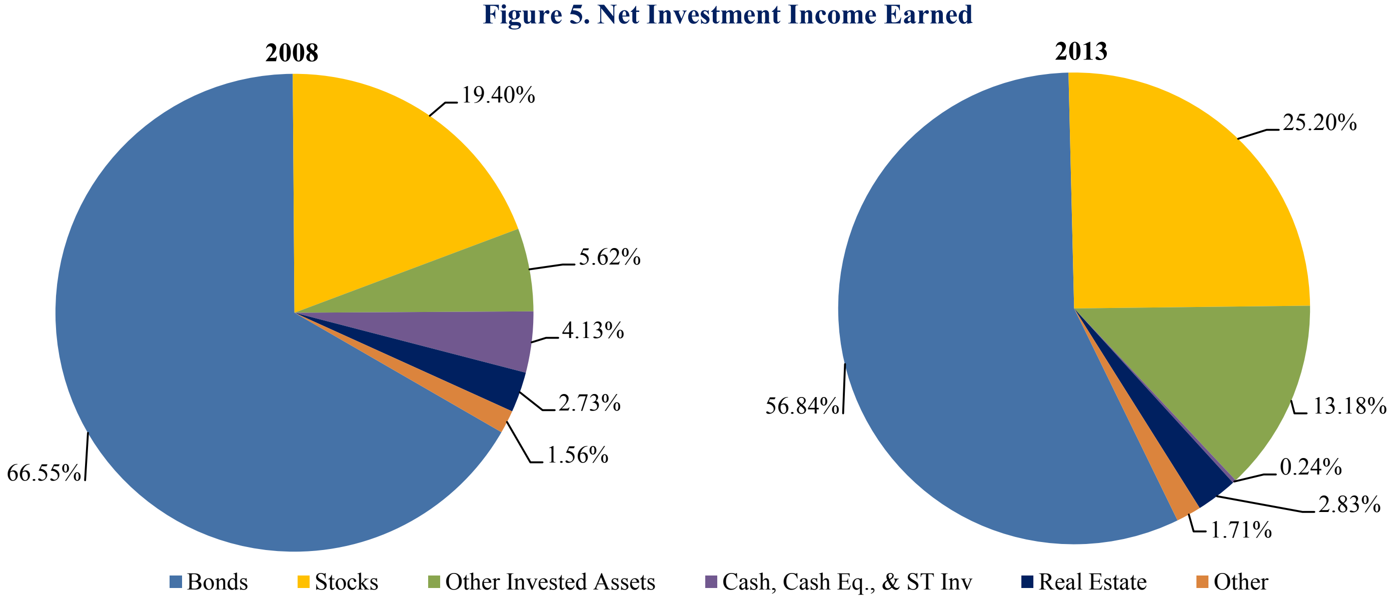
Figure 4.



Despite a material shift in investments from bonds to stocks, bonds still comprise nearly half of the industry's total net admitted assets. However, the percent of bonds with short-term durations, five years or less, accounted for the majority of total bonds, signifying that insurers are anticipating a pro-longed period of lower long-term yields and continued slow economic recovery. In comparison, investments in bonds with durations of five years or less accounted for 55.7% of total bonds in 2013 versus 45.6% in 2006 when rates were higher.

Overall, the industry recorded a total net investment gain of $64.9 billion (92.9% of total net profits), compared to a gain of $57.1 billion in 2012.

Figure 5. Net Investment Income Earned



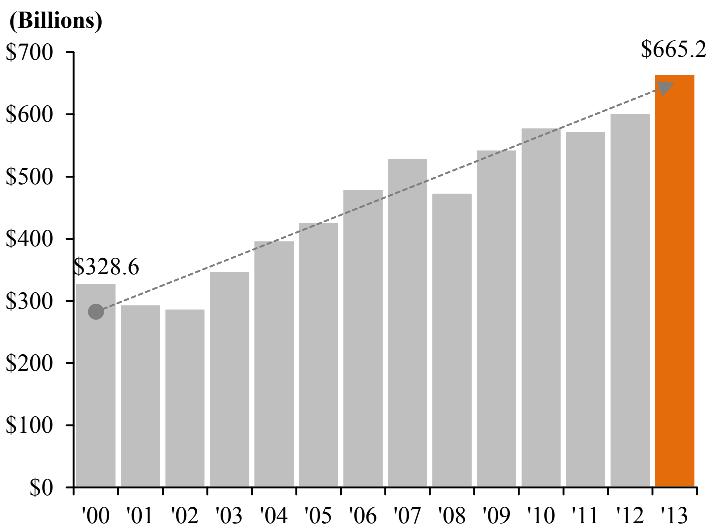
Net Income

The industry's bottom line increased 91.5% to $69.9 billion in 2013 from $36.5 billion in 2012. The improvement stemmed from higher premium rates and lower incurred losses that attributed to improved underwriting results. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized gains (losses)—improved to 13.0% or 5.9-percentage points higher than the 7.1% recorded in the prior year.

Policyholders' Surplus

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 10.4% since the prior year-end to a new high of $665.2 billion, shown in **Figure 6**. This increase was mostly attributed to net income of $69.9 billion, unrealized capital gains of $22.9 billion, and $3.4 billion in paid-in surplus, partially offset by $40.8 billion in stockholder dividends. Return on surplus—a measure of net income and unrealized capital gains (losses) to average policyholders' surplus—increased 7.8-percentage points to 14.6% from 6.9% for the prior year.

Figure 6. Policyholders' Surplus



Cash & Liquidity

Net cash provided by operating activities totaled $58.6 billion in 2013 compared to $38.7 billion for the year prior. The improvement was driven by higher net premiums earned that increased cash inflows by 3.3% to $531.2 billion (adjusted for affiliated investments), while lower net losses incurred reduced cash outflows by 0.6% to $472.7 billion.

Industry liquidity strengthened 3.6-percentage points to 78.0% as liquid assets increased 5.1%, exceeding a nominal 0.9% increase in adjusted liabilities.

Reserves

Aggregate loss and LAE reserves decreased 2.0% or $12.2 billion to $604.1 billion at year-end 2013 from $616.3 billion at the prior year-end. The majority of the decline occurred within the special property (fire, allied, inland marine, earthquake, and burglary and theft) lines, as collectively reserves decreased by 14.3% or $2.7 billion. Other notable declines include an 8.2% or $2.0 billion decline in homeowners/farmowners lines, and a 6.5% or $1.4 billion decrease in financial and mortgage guaranty lines.

Table 6, shows the one-year and two-year loss reserve development by line, with an overall one-year redundancy of $17.4 billion and two-year redundancy of $24.6 billion.

Table 6. Loss Reserve Development

($ in Millions)	1-Year	2-Year
Homeowners/Farmowners	($1,550)	($2,233)
Private Passenger Auto Liability/Medical	($1,190)	($3,308)
Commercial Auto/Truck Liability/Medical	$644	$813
Workers' Compensation	($3,158)	($3,531)
Commercial Multiple Peril	($532)	($1,062)
Medical Professional Liability - Occurrence	($578)	($964)
Medical Professional Liability - Claims-Made	($1,517)	($2,620)
Sp Liability (Ocean Mar, Aircraft, Boil&Mach)	($362)	($758)
Other Liability - Occurrence	($1,269)	($520)
Other Liability - Claims-Made	($491)	($1,094)
Sp Property (Fire, Allied, Inland Mar, EQ, B&T)	($1,010)	($1,156)
Auto Physical Damage	($1,472)	($2,147)
Fidelity /Surety	($356)	($608)
Other (including Credit, A&H)	($421)	$7
International	($20)	($42)
Reinsurance (Nonpro-Property)	($1,222)	($1,431)
Reinsurance (Nonpro-Liability)	($222)	($1,189)
Reinsurance (Nonpro-Financial)	($43)	($77)
Product Liability - Occurrence	$1,080	$1,112
Product Liability - Claims-Made	$23	($24)
Financial Guaranty/Mortgage Guaranty	($3,663)	($3,847)
Warranty	($23)	$38
Total	**($17,354)**	**($24,644)**

Reinsurance

Total amounts recoverable from reinsurers decreased 0.8% to $824.2 billion in 2013 from $830.5 billion in 2012. Authorized balances totaled $711.3 billion, 0.8% lower relative to the prior year, and represented 86.3% of total recoverables. Unauthorized balances totaled $106.1 billion, 1.5% lower compared to the prior year, and represented 12.9% of the total. Lastly, certified balances totaled $6.8 billion or just 0.8% of the total. Leverage related to net recoverable balances decreased to 116.4% of policyholders' surplus in 2013 from 129.7% in 2012. Total amounts recoverable on paid loss and LAE decreased 13.2% to $26.7 billion (4.0% of policyholders' surplus), whereby $21.2 billion represented authorized reinsurance, $5.2 billion unauthorized, and $362 million certified. Total overdue reinsurance balances on paid losses and LAE was $2.8 billion or 10.5% of total amounts recoverable on paid losses and LAE. Authorized overdue balances totaled $2.0 billion or 72.4% of total overdue while unauthorized overdue balances totaled $757.1 million or 27.0% of the total.

Professional Reinsurance Market

The NAIC defines the professional reinsurance market as insurers that collectively comprise the top 75% of non-affiliated assumed premiums written. In 2013, 29 insurers represented the professional reinsurer market with a combined non-affiliated assumptions of $34.5 billion, representing 75.1% of the non-affiliated reinsurance market.

Table 7 provides a list of the 2013 professional reinsurers along with key financial highlights. With respect to the professional reinsurance market overall, return on revenue improved to 30.8% in 2013 compared to 13.9% in 2012, due to improved underwriting performance as a result of low catastrophe exposure. Net income totaled $26.6 billion, most of which was attributed to a net investment gain of $25.8 billion, but also attributed to a net underwriting gain of $4.6 billion. The net loss ratio improved 16.9-percentage points in 2013 to 60.7% compared to 77.6% in 2012 while the expense ratio worsened 1.5-percentage points to 29.8%, with an overall 15.3-percentage point improvement in the combined ratio to 90.6%. Regarding the reinsured business profitability, assumed losses incurred totaling $52.0 billion and accounted for 53.4% of assumed premiums earned of $97.5 billion. Prior year reserves continued to develop favorably in 2013, as the one-year reserve development was redundant by $3.0 billion and the two-year development was redundant by $3.5 billion. Operating cash flow remains positive at $20.2 billion and the liquidity ratio improved to 96.3%.

Alternative Reinsurance Market

The transfer of risk through vehicles such as, catastrophe bonds or reinsurance sidecars has recently been heating up in the market. The primary benefit of this form of transfer is the lower cost of capital. This alternative market has gained traction and is expected to take considerable market share from the traditional reinsurance market. According to a recent Towers Watson survey of property and casualty insurance CFOs, approximately 27% of the 29 respondents are currently using or look favorably on the transfer of risk through the capital markets.

Table 7. Professional Reinsurance Market

Reinsurer	Non-Aff APW	Net Income	ROR	ROS
Swiss Reins Amer Corp	$4,796	$645	30.4%	15.6%
National Ind Co	$3,956	$8,391	59.3%	26.0%
Everest Reins Co	$3,177	$540	24.3%	21.6%
Transatlantic Reins Co	$3,018	$770	22.1%	20.5%
Munich Reins Amer Inc	$2,607	$806	22.1%	15.2%
Odyssey Reins Co	$1,662	$113	11.3%	6.9%
Partner Reins Co Of The US	$1,595	$123	9.8%	12.5%
Liberty Mut Ins Co	$1,115	$507	3.7%	5.8%
General Reins Corp	$1,013	$931	64.2%	16.8%
American Ag Ins Co	$891	$55	15.8%	14.0%
Ace Amer Ins Co	$833	$412	20.0%	8.9%
AXIS Reins Co	$793	$58	11.7%	9.7%
Scor Reins Co	$787	$67	8.2%	10.7%
Hartford Steam Boil Insp	$714	$105	13.8%	16.9%
Berkley Ins Co	$683	$1,494	24.3%	6.2%
Maiden Reins Co	$674	($1)	(0.3%)	0.6%
Empire Fire & Marine Ins Co	$551	$0	44.3%	0.8%
Nat'l Un Fire Ins Co Of Pitts	$545	$8,102	59.1%	25.4%
Ace Prop & Cas Ins Co	$544	$166	9.8%	10.3%
Endur Reins Corp of Am	$532	$28	10.8%	(8.4%)
Firemans Fund Ins Co	$514	$237	7.9%	8.7%
Arch Reins Co	$512	$33	16.6%	8.2%
Factory Mut Ins Co	$503	$662	21.1%	19.1%
Toa Re Ins Co Of Amer	$481	$71	15.6%	16.5%
Allied World Ins Co	$443	$14	7.5%	(0.6%)
XL Reins Amer Inc	$419	$161	15.3%	6.8%
Platinum U/W Reins Inc	$401	$93	22.2%	16.8%
Alterra Reins USA Inc	$393	$20	9.2%	3.0%
Federal Ins Co	$361	$2,022	24.9%	16.9%

($ in Millions)

CATASTROPHE UPDATE

GLOBAL

According to Munich Re's 2013 Natural Catastrophe Year In Review, both overall economic and insured global catastrophic losses for the year were below average despite a reported 880 global loss events, in contrast to a 10-year average of 790. Overall economic losses totaled $125 billion compared to a 10-year average of $184 billion while insured losses totaled $31 billion vs. a 10-year average of $56 billion. Despite the one-year decline in economic and insured losses, the trend over the past 30 year period is of steadily increasing losses worldwide. Insured losses in the United States represented the highest total by country for 2013 at $12.8 billion while Germany had the second highest total at $6.6 billion. Two hailstorms occurring in Germany during the month of July resulted in overall losses of $4.8 billion and insured losses totaling $3.7 billion. Fatalities attributed to total global events topped 20,000 for the year with over 6,000 stemming from Typhoon Haiyan which made landfall in the Philippians during the month of November with winds in excess of 185 mph.

The majority of 2013 global loss events were meteorological in nature (tropical/winter storms, thunderstorms, etc.) followed by hydrological events (floods, etc.). The Northwest Pacific region experienced twenty-nine named storms during the year with sixteen typhoons and five super typhoons (150 mph sustained winds) occurring. At the same time, the Atlantic hurricane season was one of the least active on record with only thirteen named storms and two hurricanes occurring during the year. This marked the first year in the past thirty with only two hurricanes and the first in forty five years without a category two or higher hurricane occurring.

UNITED STATES

The United States experienced 128 loss events during 2013 compared to 180 for the prior year, representing a decline of approximately 29%. At the same time U.S. insured losses for the year totaled $12.8 billion, compared to average insured losses of $29.4 billion for the past decade, and represented approximately 41% of total global insured losses. Multiple thunderstorms led to $10.3 billion in insured losses and the sixth costliest thunderstorm season on record. This represented the sixth consecutive year where insured losses due to thunderstorms topped $10 billion. Hurricane activity was once again light with only one minor hurricane making landfall during 2013. This marked the eighth consecutive year the U.S. hasn't experienced a major hurricane landfall.

Winter storms and floods contributed to overall losses of $2.9 billion and $1.9 billion, respectively. While insured losses for theses events topped $1.9 billion and $240 million, respectively. Combined wildfire, heat & drought related overall economic and insured losses topped $620 million and $385 million, respectively. Losses were impacted by record-setting wildfires in Colorado during the month of June, followed by record flooding in September. The drought that has plagued the Midwest and Desert Southwest regions in the recent past eased during the year, though drought conditions worsened in California.

The U.S. experienced the weakest tornado season in the past decade in relation to the number of storms. However three particularly destructive tornadoes occurred in the spring of 2013. These included a category five tornado that caused a 14 mile long and 1.1 mile wide path of destruction that devastated the town of Moore, Oklahoma. A total of 26 lives were lost while close to 400 people were injured and over 1,000 buildings were destroyed. Overall economic and insured losses attributed to this particular event were in excess of $3.0 billion and $1.6 billion, respectively. The overall lack of tornadoes during the year was attributed to an unusual weather pattern in the spring months. This included a high pressure system in the northeastern Pacific Ocean. This contributed to a jet stream pattern that allowed arctic air to drop south over the central U.S. keeping the atmosphere too stable for tornadoes to develop.

Title Industry

Premium

The title industry produces business almost entirely on a direct basis, either through direct operations or agency operations. Direct premiums written were up 36.2% from the 10 year low set in 2011 at $9.3 billion. For the current year, direct business written increased 11.7% to $12.6 billion producing an 11.8% rise in gross and net writings. Little reinsurance is utilized in the industry resulting in gross and net writings that totaled $12.6 billion for 2013 and a retention of 99.5%. The gross and net writings leverage ratios were similar at 306.5% and 304.9%, respectively.

Profitability

The U.S. title industry continued to benefit from the recovering housing market in 2013. For the second year in a row, the industry has recorded a net operating gain. The 2013 gain totaled $686 million, a 37.7% improvement from the prior year. The improvement was produced by a 9.9% rise in total operating income to $13.4 billion that surpassed a 8.7% increase in total operating expenses to $12.8 billion. The combined ratio improved 2.8-percentage points to 101.5% and was represented by a 6.6% loss ratio and a 94.8% expense ratio.

The lingering low interest rate conditions continued to hinder the industry in generating gains, demonstrated by a 14.9% decline in net investment income earned to $274 million and a 28.1% drop in net realized gains to $26 million. Overall, net investment gains deteriorated 16.2% to $300 million in 2013.

Ultimately, the industry reported improvement in profitability with a net income of $769 million compared to a prior year net income of $719 million.

Capital & Surplus

Industry aggregated policyholders' surplus increased 7.3% to $4.1 billion, the majority of which was due net income of $769 million and unrealized capital gains of $119 million. Partially offsetting the increase was $466 million in dividends paid to stockholders and $126 million in aggregate write-ins for losses.

Return on surplus - a measure of net income and unrealized capital gains (losses) to average policyholders' surplus was 22.3%, a 4.0-percentage point deterioration from the previous year.

Cash & Liquidity

Net cash from operations declined 16.3% relative to prior year end to $706 million. An increase in commissions and expenses of 10.1% to $11.9 billion was the contributing factor in a 11.8% rise in cash outflows to $13.1 billion. Cash inflows rose at a lesser pace of 9.9% to $13.9 billion primarily due to a 12.3% growth in premiums collected to $12.7 billion. Net cash used by investing activities totaled $308 million and net cash used by financing activities totaled $481 million for an overall decrease in cash, cash equivalents and short-term investments of $84 million.

The industry's liquidity ratio strengthened 5.6-percentage points to 76.1%, attributable to a 2.5% increase in liquid assets and a 4.6% decrease in adjusted liabilities.

Table 8. Title Insurance Industry Results

($ Millions)	Chg.	2013	2012	2011
Insurance Operations				
Net Premiums Written	11.8%	$12,569	$11,246	$9,249
Title Premiums Earned	11.2%	$12,490	$11,233	$9,364
Loss & LAE Incurred	(3.1)%	$825	$851	$1,102
Operating Exp Incurred	9.5%	$11,919	$10,881	$9,300
Net Operating Gain/(Loss)	37.7%	$686	$498	$(22)
Loss Ratio	(1.0)-pts	6.6%	7.6%	11.8%
Expense Ratio	(1.9)-pts	94.8%	96.7%	100.9%
Combined Ratio	(2.8)-pts	101.5%	104.3%	112.7%
Net Cash from Ops	(16.3)%	$706	$844	$167
Liquidity Ratio	(5.6)-pts	76.1%	81.7%	96.3%
Investment Operations				
Net Inv. Income Earned	(14.9)%	$274	$321	$346
Investment Yield	(0.9)-pts	3.9%	4.7%	5.4%
Realized Gain/(Loss)	(28.1)%	$26	$36	$34
Capital and Surplus				
Net Income	6.9%	$769	$719	$309
Net Unrealized Gain/(Loss)	(32.5)%	$119	$176	$(101)
Policyholders' Surplus	7.3%	$4,122	$3,842	$2,975
Return on Surplus	(4.0)-pts	22.3%	26.2%	7.0%