Property & Casualty Insurance Industry

OVERVIEW

The property & casualty insurance industry has faced one of the toughest operating environments in recent years, with rising loss costs stemming from inflation, supply chain issues, and natural catastrophes. The growth in earned premium was far outpaced by higher losses and LAE incurred, resulting in the steepest underwriting loss since 2011.

Investment gains offset the underwriting loss, but net income for the industry was 35.6% lower than 2021. The investment yield was nearly a percentage point higher, due in part to an increase in investment income earned, but largely due to a weakened balance sheet resulting from lower investment valuations driven by a downturn in the financial market.

Policyholders' surplus declined 7.1% since the prior year end driven by large unrealized capital losses. Return on surplus declined to 3.7% versus 5.9% last year.

Inside the Report

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

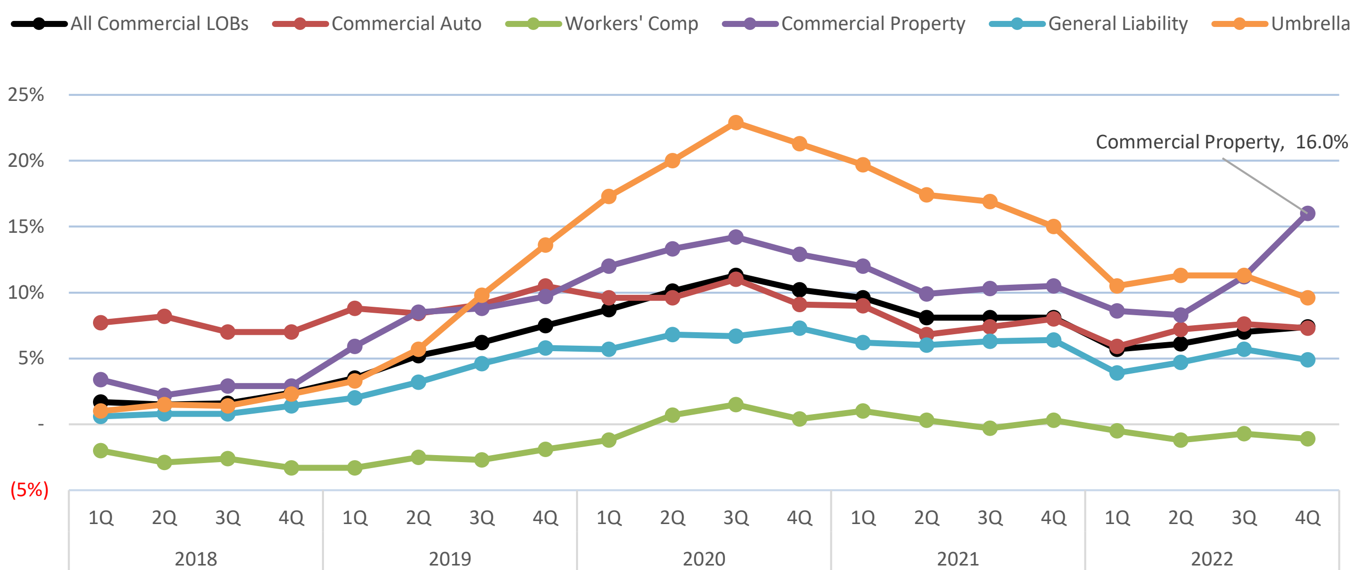
For the year ended December 31,	YoY Chg	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net Premiums Written	8.6%	781,624	719,927	658,913	642,984	621,786	561,952	537,926	524,006	506,657	486,462
Net Premiums Earned	8.5%	752,562	693,777	646,014	630,776	603,188	549,958	533,236	515,835	497,931	476,792
Net Losses Incurred	15.5%	499,476	432,600	383,308	378,582	366,258	353,954	323,195	296,749	284,934	263,576
Loss Expenses Incurred	6.7%	75,362	70,655	69,888	69,244	64,658	65,218	61,829	60,932	58,706	56,951
Underwriting Expenses	5.9%	200,635	189,526	179,964	173,055	168,228	151,672	148,692	145,753	139,846	136,586
Underwrting Gain (Loss)	(22,108.8%)	(24,574)	(111)	12,100	8,373	2,907	(22,459)	(1,700)	11,453	14,658	20,127
Net Loss Ratio	3.8 pts	76.4%	72.5%	70.2%	71.0%	71.4%	76.2%	72.2%	69.3%	69.0%	67.2%
Expense Ratio	(0.7) pts	25.7%	26.3%	27.3%	26.9%	27.1%	27.0%	27.6%	27.8%	27.6%	28.1%
Combined Ratio	2.9 pts	102.5%	99.6%	98.7%	98.7%	99.1%	103.9%	100.5%	97.8%	97.3%	96.0%
1yr Rsrv Devlp/PY PHS	0.2 pts	(0.5%)	(0.7%)	(0.8%)	(0.8%)	(1.6%)	(1.4%)	(0.7%)	(1.2%)	(1.4%)	(2.7%)
Net Invmnt. Inc. Earned	31.2%	69,440	52,936	51,596	55,132	53,287	48,978	45,539	47,228	46,401	46,594
Net Realized Gains (Loss)	(90.9%)	1,654	18,204	11,064	11,260	10,885	19,833	8,747	10,285	12,006	18,823
Net Invmnt. Gain (Loss)	(0.1%)	71,094	71,139	62,660	66,392	64,172	68,812	54,286	57,513	58,407	65,417
Investment Yield	0.67 pts	3.24%	2.58%	2.75%	3.02%	3.06%	3.08%	3.01%	3.18%	3.17%	3.34%
Total Other Income	(43.7%)	1,979	3,514	1,034	1,284	1,530	(4,687)	950	1,475	(2,908)	(580)
Net Income[1]	(35.6%)	38,951	60,449	59,196	62,229	57,565	38,717	42,860	56,884	56,439	69,725
Return on Revenue	(3.2) pts	4.7%	7.9%	8.4%	8.9%	8.6%	6.3%	7.3%	9.9%	10.1%	12.9%
December 31,	**YoY Chg**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Policyholders' Surplus[2]	(7.1%)	1,000,893	1,077,866	955,136	891,214	779,921	786,016	734,026	705,948	706,740	686,135
Return on Surplus	(2.2) pts	3.7%	5.9%	6.4%	7.4%	7.4%	5.1%	6.0%	8.1%	8.1%	10.7%

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

MARKET CONDITIONS

Premium Pricing

After recovering from challenges stemming from the pandemic, the U.S. property & casualty insurance industry is facing a hard market cycle primarily due to the combination of historic high inflation, supply chain disruptions, and natural catastrophes which have created economic uncertainty. According to the Council of Insurance Agents and Brokers (CIAB) Q4 2022 Market Report, average commercial premiums increased by 8.0% across all lines, marking 21 consecutive quarters of price increases. Commercial auto rates increased 7.3% in the fourth quarter, marking 42 consecutive quarters of rate increases within this line.



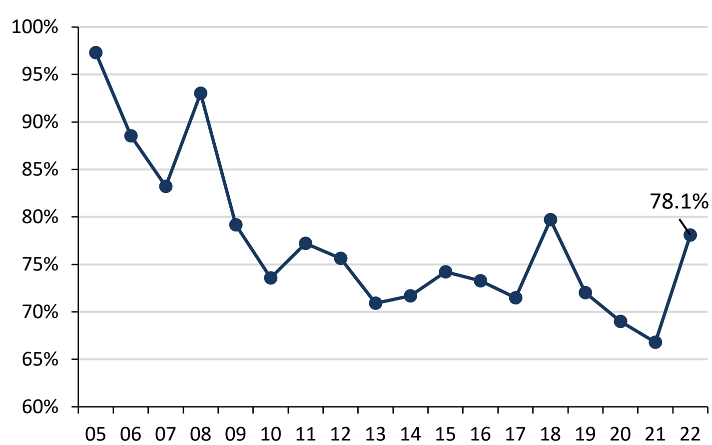
Source: The Council of Insurance Agents & Brokers, Commercial Property/Casualty Market Index – Q4/2022

Although average premium rates continued to rise, respondents noted a moderation in most major commercial lines, with the exception of commercial property, where premiums increased by an average of 16.0%, due to inflation. According to the CIAB, the primary way inflation influences premiums is through increased property valuations. As building materials and labor prices increase, the amount an insurer would have to pay to replace or rebuild damaged property increases, requiring a higher premium. In addition to higher rates, carriers have tightened underwriting guidelines by raising deductibles and implementing more restrictive terms on property risks.

Capacity

Net writings leverage rose to 78.1% from an all-time low of 66.8% a year ago, as the effects of high inflation, supply chain problems, and above-average losses from natural catastrophes led to a moderate decline in policyholders' surplus. The deterioration also reflected a rebound in premium volume following the slowdown caused by COVID. However, the property & casualty industry is still in a good position for future growth.

Net Writings Leverage

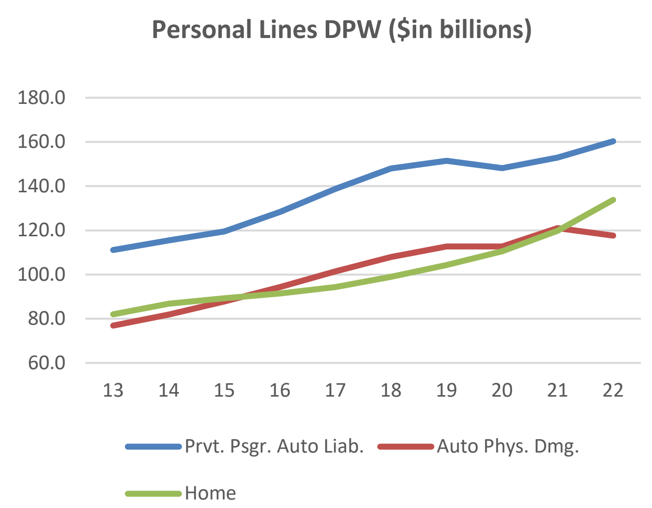


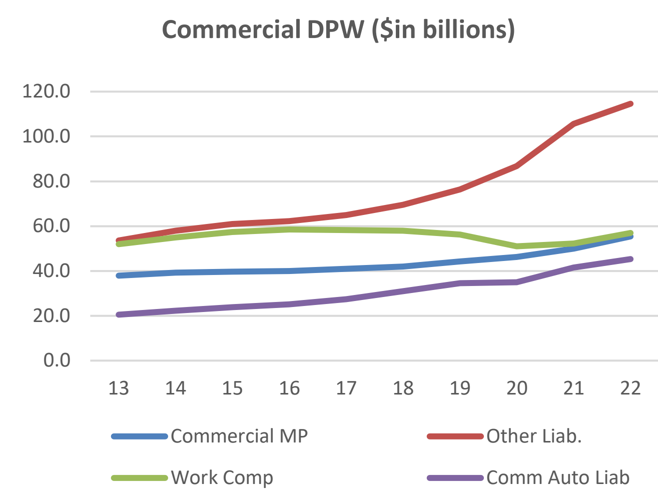
PREMIUM

Direct premiums written (DPW) increased 9.6% year-on-year (YoY) to $874.5 billion in 2022. This is the second consecutive year of a near double-digit YoY increase following the pandemic and the largest YoY increase over the past ten years, which has averaged 5.3%. Furthermore, direct premium growth occurred across nearly all lines of business. The only lines of business with YoY premium contraction were financial and mortgage guaranty, international, and warranty.

Growth in the current year reflects higher rates in response to the various market challenges that were mentioned previously. The increase in property insurance rates was largely due to economic inflation and supply chain problems, which are driving replacement costs higher. Commercial liability rates have also increased partly due to social inflation. Social inflation is a term used to describe the rising costs of insurance claims resulting from increased litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards.

DPW in the personal lines market represented 45.1% of total DPW at $394.8 billion. Personal auto liability and homeowners premiums increased 4.8% and 11.7%, respectively, while auto physical damage premiums decreased 2.8%.





Commercial lines DPW increased 7.4% to $320.3 billion, representing 36.6% of total DPW. All major lines saw a premium increase, with the largest commercial line, other liability claims-made and occurrence, increased 8.4% to $114.6 billion. DPW in workers' compensation, commercial multiple peril, and commercial auto liability increased 8.9%, 10.8%, and 9.0%, respectively.

Assumed premiums written increased 9.8% YoY to $733.8 billion, of which 88.4% was affiliated assumptions. U.S. intercompany pooling agreements comprised 60.9% of reinsured business, followed by 25.6% affiliated non-pooled business. Ceded premiums written amounted to $826.7 billion, a 10.8% increase compared to last year. Overall, net premiums written (NPW) increased 8.6% to $781.6 billion.

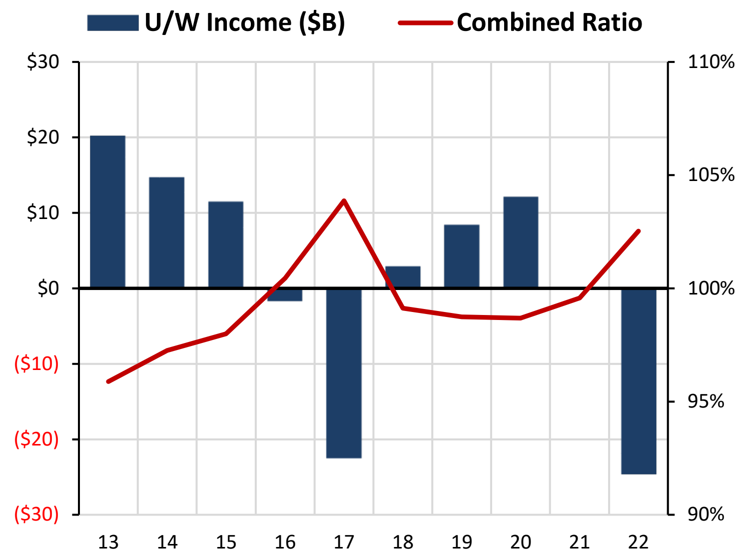
The table on the following page shows change in DPW and pure direct loss ratio (PDLR) by state.

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

State	Direct Premiums Written			Pure Direct Loss Ratio			Losses Incurred		Premiums Earned	
	Change	2022	2021	Change	2022	2021	2022	2021	2022	2021
AL	8.1%	11,716	10,841	(2.2) pts	59.6%	61.9%	6,765	6,476	11,343	10,469
AK	8.3%	1,853	1,711	1.4 pts	49.2%	47.8%	880	798	1,789	1,670
AR	11.0%	15,629	14,087	6.1 pts	67.6%	61.5%	10,112	8,329	14,966	13,543
AR	9.2%	7,015	6,422	23.0 pts	87.5%	64.5%	5,952	4,021	6,803	6,235
CA	7.9%	103,941	96,312	6.3 pts	62.6%	56.2%	63,161	51,888	100,913	92,253
CO	11.5%	18,256	16,368	(4.0) pts	59.1%	63.1%	10,283	9,876	17,397	15,649
CT	6.3%	10,652	10,016	0.4 pts	61.4%	61.0%	6,364	5,908	10,365	9,692
DE	7.8%	3,515	3,262	14.2 pts	66.6%	52.4%	2,287	1,641	3,433	3,134
DC	11.9%	2,606	2,328	5.2 pts	51.5%	46.3%	1,268	1,032	2,462	2,229
FL	14.1%	75,735	66,401	34.4 pts	94.7%	60.3%	66,957	37,927	70,681	62,851
GA	9.4%	29,010	26,513	10.3 pts	73.5%	63.2%	20,497	16,128	27,895	25,510
HI	10.1%	3,183	2,891	(1.2) pts	45.8%	47.0%	1,404	1,310	3,066	2,786
ID	14.2%	4,397	3,849	(1.3) pts	60.9%	62.2%	2,514	2,282	4,128	3,667
IL	9.2%	33,302	30,485	3.6 pts	61.4%	57.8%	19,631	16,743	31,953	28,959
IN	9.9%	14,925	13,581	3.7 pts	59.7%	56.0%	8,590	7,361	14,385	13,138
IA	13.6%	9,149	8,055	(2.5) pts	59.2%	61.7%	5,210	4,815	8,806	7,807
KS	12.6%	8,890	7,896	17.1 pts	72.5%	55.4%	6,156	4,235	8,491	7,645
KY	7.6%	9,250	8,600	(2.7) pts	65.9%	68.6%	5,918	5,737	8,980	8,369
LA	8.1%	14,388	13,306	(108.2) pts	59.8%	168.0%	8,237	21,611	13,774	12,862
ME	8.3%	3,002	2,771	3.9 pts	51.9%	48.0%	1,506	1,285	2,900	2,674
MD	7.4%	14,796	13,781	12.0 pts	65.8%	53.7%	9,443	7,217	14,357	13,429
MA	7.2%	19,647	18,331	6.3 pts	54.7%	48.4%	10,415	8,560	19,032	17,684
MI	5.8%	22,571	21,331	6.7 pts	70.3%	63.6%	15,481	13,336	22,013	20,955
MN	10.7%	15,533	14,037	28.6 pts	87.7%	59.1%	13,155	8,028	15,005	13,594
MS	8.0%	6,847	6,343	0.4 pts	60.5%	60.1%	4,014	3,669	6,638	6,109
MO	9.0%	15,553	14,263	5.1 pts	63.3%	58.1%	9,530	8,027	15,066	13,810
MT	12.7%	3,464	3,073	10.5 pts	75.2%	64.7%	2,500	1,887	3,325	2,915
NE	13.7%	6,905	6,073	42.5 pts	97.8%	55.3%	6,512	3,263	6,656	5,896
NV	8.8%	7,673	7,050	10.4 pts	69.0%	58.6%	5,158	3,955	7,474	6,749
NH	7.4%	3,045	2,834	7.6 pts	52.8%	45.2%	1,555	1,245	2,947	2,756
NJ	7.6%	26,679	24,785	(4.5) pts	61.3%	65.8%	15,924	15,770	25,978	23,982
NM	9.1%	4,409	4,041	8.7 pts	68.1%	59.4%	2,911	2,328	4,273	3,920
NY	7.2%	58,978	55,034	2.3 pts	63.9%	61.6%	36,578	32,545	57,238	52,792
NC	10.4%	21,718	19,677	1.9 pts	60.3%	58.4%	12,565	11,080	20,838	18,988
ND	21.3%	3,629	2,991	(18.5) pts	73.5%	92.0%	2,609	2,688	3,550	2,923
OH	7.3%	21,194	19,747	11.9 pts	65.5%	53.6%	13,430	10,216	20,515	19,077
OK	10.2%	10,306	9,354	2.3 pts	64.7%	62.4%	6,408	5,645	9,907	9,044
OR	9.8%	9,367	8,533	2.3 pts	62.2%	59.9%	5,554	4,951	8,930	8,259
PA	6.3%	30,133	28,339	4.2 pts	62.5%	58.3%	18,332	15,997	29,309	27,432
RI	6.6%	3,069	2,880	(0.7) pts	54.2%	54.9%	1,618	1,553	2,987	2,831
SC	9.7%	13,282	12,104	9.8 pts	65.5%	55.7%	8,335	6,518	12,729	11,698
SD	20.4%	3,671	3,049	36.4 pts	101.7%	65.2%	3,574	1,931	3,515	2,960
TN	9.6%	15,561	14,200	3.8 pts	63.2%	59.4%	9,557	8,133	15,111	13,689
TX	13.7%	80,475	70,774	(10.7) pts	68.3%	79.0%	51,916	53,362	75,973	67,546
UT	13.2%	7,181	6,344	4.0 pts	59.8%	55.8%	4,055	3,374	6,784	6,044
VT	5.3%	1,493	1,417	9.4 pts	54.5%	45.1%	796	625	1,460	1,386
VA	9.0%	18,084	16,597	5.8 pts	59.5%	53.7%	10,384	8,651	17,466	16,115
WA	8.6%	16,579	15,263	6.4 pts	68.5%	62.1%	10,959	9,121	16,002	14,699
WV	6.4%	3,341	3,141	3.4 pts	57.5%	54.1%	1,870	1,669	3,250	3,084
WI	9.9%	13,366	12,160	12.8 pts	66.9%	54.1%	8,679	6,426	12,968	11,871
WY	9.4%	1,594	1,457	(1.7) pts	44.6%	46.3%	681	643	1,527	1,388
AS	(12.6%)	0	0	(36.1) pts	(153.7%)	(117.6%)	(0)	(0)	0	0
GU	12.4%	385	342	9.7 pts	58.0%	48.3%	216	159	373	330
PR	6.5%	2,844	2,669	19.9 pts	32.3%	12.4%	911	319	2,822	2,563
VI	(6.0%)	165	176	(4.9) pts	22.4%	27.3%	36	51	162	186
MP	7.2%	24	22	(183.3) pts	2.8%	186.1%	1	38	22	20
Totals	**9.6%**	**874,538**	**797,706**	**5.0 pts**	**67.2%**	**62.2%**	**565,140**	**477,463**	**840,904**	**767,181**

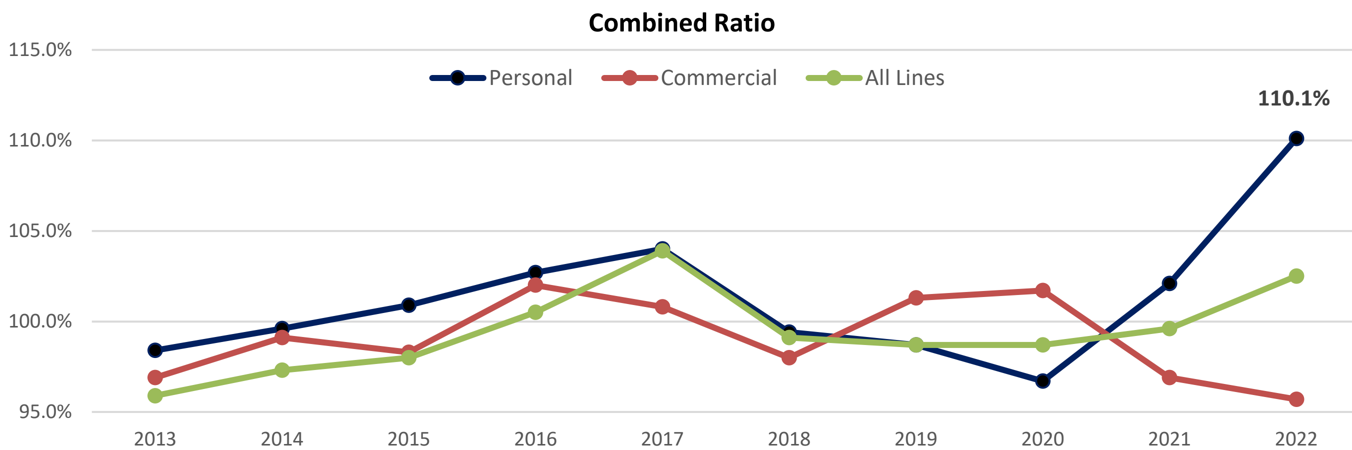
UNDERWRITING OPERATIONS

The industry posted a $24.6 billion underwriting loss, the worst since 2011 as inflation and natural catastrophes drove a sharp deterioration in personal lines. Although the commercial market outperformed the personal market, commercial carriers also experienced challenges in 2022. Higher loss costs on commercial property lines were also due to inflation and natural catastrophes, while social inflation impacted certain liability lines. Overall, industry net premiums earned increased 8.5% while losses and LAE incurred increased 14.2% resulting in a net loss ratio of 76.4%. Underwriting expenses increased 5.9% but less than the increase in net premiums written, resulting in a slightly lower YoY expense ratio of 25.7%. The combined ratio was 102.5%, the highest since 2017 when the industry experienced a historic year of natural disasters, including Hurricanes Harvey, Irma, and Maria.



Sharp Deterioration in Personal Lines

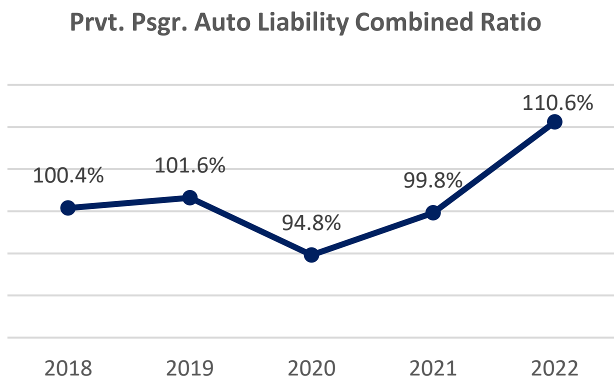
The personal lines market comprised 56.1% of the industry's net losses and LAE incurred in 2022. The combined ratio for this segment reached a 15-year high at 110.1%, driven primarily by poor personal auto results.

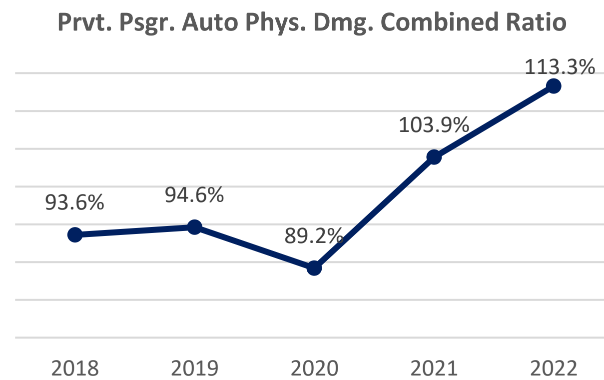


Personal Auto

Historically, underwriting results within the personal auto space were relatively stable until 2020, when the pandemic started. Insurers that year reported much stronger than usual results due to the drastic drop in miles driven and returned approximately $14 billion in premiums to policyholders. The combined ratio for private passenger auto liability in 2020 was 94.8%, a 6.8-point improvement compared to 101.6% for 2019. Since then, insurers have faced an uphill battle. In 2021 when miles driven returned to normal, auto insurers reported worsening loss ratios due to an increase in the frequency and severity of accidents. In 2022, personal auto liability and physical damage lines together generated a $26.5 billion underwriting loss, dragging down the overall underwriting results.

While an increase in accident frequency drove a deterioration in results coming out of the pandemic, increased loss severity was one of the main factors in the current year deterioration. Supply chain disruptions impacted and continue to impact the price of new and used vehicles while historic inflation, increasing vehicle technology, and labor shortages drove an increased cost of repairs. According to the U.S. Bureau of Labor Statistics, the cost of motor vehicle parts and equipment increased 10% compared to 2021, and repair costs increased 19% during that same period. A sharp deterioration in the combined ratio for the liability and physical damage auto lines are shown below.





Homeowners

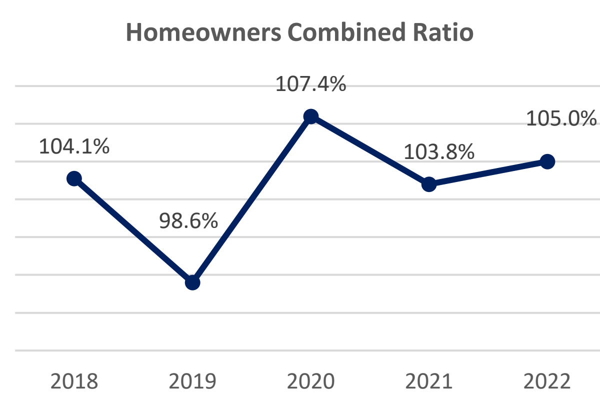
The homeowners line has been unprofitable for three consecutive years and five of the last ten. An increase in frequency and severity of natural catastrophes in recent years has been largely to blame. In 2022, natural disasters cost insurers roughly $90 billion. Recently, historic inflation has exacerbated the poor results as increases in the cost of building materials and labor have outpaced premium rate increases. The underwriting loss in the homeowners line was $5.6 billion for 2022.

Catastrophes Losses

According to Munich Re, global economic losses from natural catastrophes are estimated at $270 billion, of which roughly $120 billion was insured, significantly above the average insured losses of $97 billion from 2017-2021. In North America, catastrophe economic losses totaled roughly $150 billion with $90 billion insured.

Worldwide, Hurricane Ian was the most destructive event in 2022, making landfall on the west coast of Florida in September with wind speeds of nearly 150 miles per hour. According to estimates, it caused overall economic losses of roughly $100 billion in the U.S., of which about $60 billion was insured, accounting for around two thirds of overall and insured losses in the U.S. Adjusted for inflation, Ian was the second costliest tropical cyclone on record after Hurricane Katrina (2005).

Severe convective storms accounted for a significant portion of catastrophe losses in the U.S., with overall and insured losses totaling $32 billion and $23 billion, respectively. This is well above the average of $23 billion in overall losses and $17 billion in insured losses over the past five years.

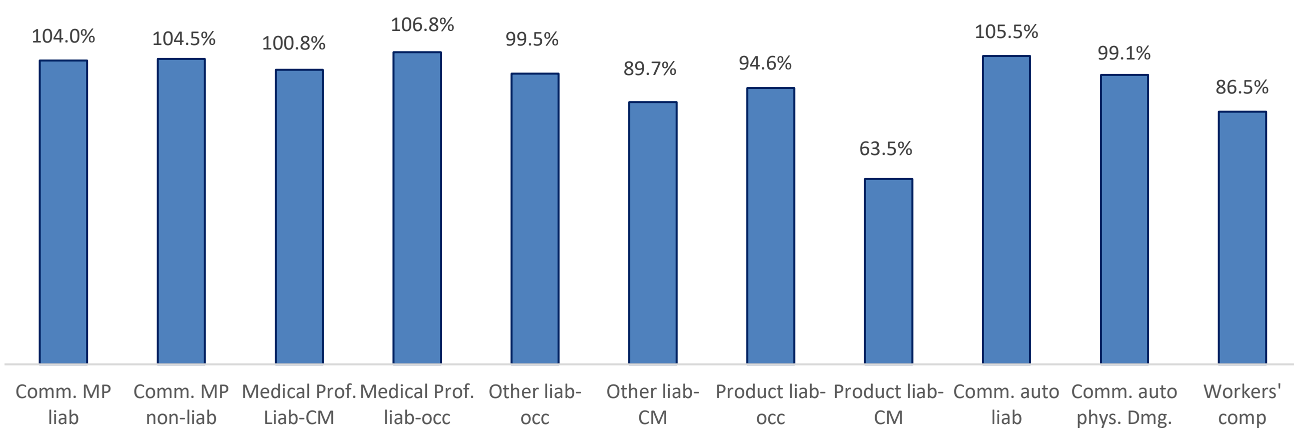


Winter Storm Elliot hit the U.S. in December, causing an extreme cold polar air outbreak deep into the southern portion of the country. Strong snowfall, ice storms and sub-zero temperatures were recorded. According to media reports, around 1.7 million households across the country were hit by power outages and more than fifty people lost their lives. Some reports estimate insured losses from Elliot of $6 billion, which follows last year's record-breaking Winter Storm Uri insured loss total of $15 billion.

Commercial Lines Market

The commercial lines market has been profitable for two consecutive years, as commercial insurers have been able to respond to market challenges with rate increases as noted on page 2, providing a boost to insurers' bottom lines. While results have improved, there are still challenges, primarily in liability lines, as many recorded combined ratios of over 100 percent.

Combined Ratio - Top Commercial Lines



<u>Other Liability – Occurrence</u>

Adverse loss reserve development of prior accident years and rising loss costs due to social inflation have challenged the profitability in this line in recent years. The past two years barely eked out a profit with a combined ratio of 99.0% and 99.5% for 2021 and 2022, respectively, as rate increases have outpaced increases in losses and LAE incurred.

<u>Commercial Multiple Peril (Liability Portion)</u>

Litigation has been largely to blame for the trend in poor results in this line which has generated an underwriting loss for seven consecutive years and nine of the last ten years. The combined ratio for 2022 was 104.0%, a 2.8-point deterioration compared to 2021.

<u>Commercial Auto Liability</u>

Adverse loss reserve development of prior accident years and a sharp rise in nuclear verdicts have contributed to a trend of underwriting losses within the commercial auto liability space, a trend that began in 2011. Insurers have increased rates each quarter for 42 consecutive quarters, according to the CIAB (see CIAB report on page 2). The combined ratio for the current year was 105.5%, a 4.1-point deterioration compared to 101.4% in 2021.

<u>Medical Professional Liability</u>

Medical professional liability has generated poor underwriting results for nine 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 5.8-point improvement in the combined ratio to 102.2%.

<u>Workers' Compensation</u>

The second largest commercial line at nearly 7% of 2022 total industry net premiums, experienced nine consecutive profitable years due, in large part, to the release of prior accident year reserves. Rate increases in this line have been rare in recent years. The combined ratio was 86.5%.

INVESTMENT OPERATIONS

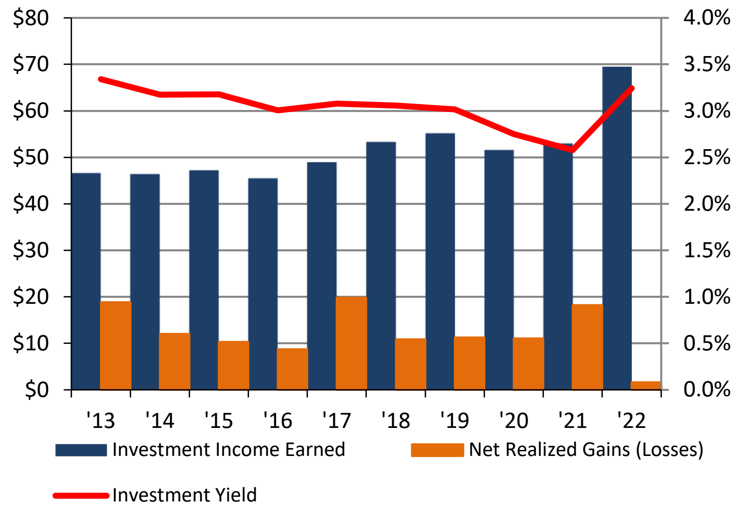
Net investment income of $71.1 billion was flat compared to last year. Net investment income earned increased 31.2% YoY to $69.4 billion. Investment income earned was primarily derived from bonds at 43.9% of the total, or $37.2 billion, while other invested assets comprised 26.5%, and stocks 22.7%. Realized capital gains plummeted 90.8% to $1.7 billion compared to $18.2 billion last year as equity markets took a sharp downturn in 2022. Bond prices fell in response to the higher interest rate environment resulting in a $9.9 billion realized loss on total bonds versus a $3.9 billion gain in 2021. Losses on unaffiliated bonds totaled $7.8 billion and government bonds produced a $1.6 billion loss. Gains on unaffiliated common stocks totaled $9.6 billion. Further, gains on other invested assets were down 79.5% to $541.2 billion while gains on derivative instruments were $1.4 billion versus only $107.8 million last year.

A combination of a 31.2% increase in investment income earned and a 1.6% decline in average cash and invested assets resulted in a higher investment yield at 3.25% versus 2.58% last year.

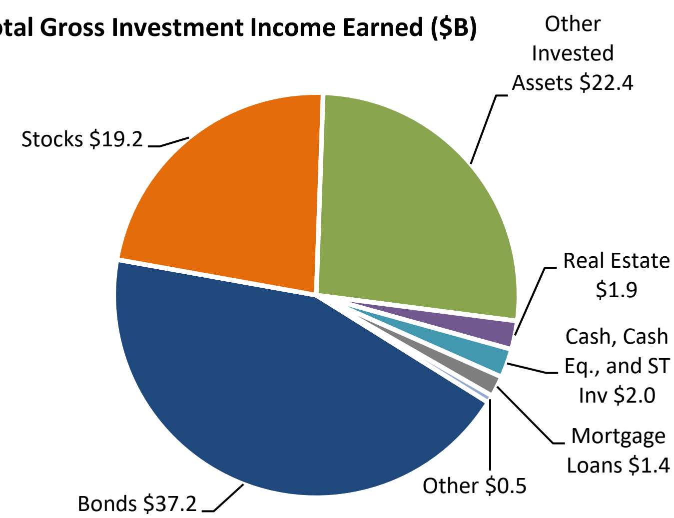
As shown in the chart on the lower right, bonds continued to comprise the majority of cash and invested assets accounting for 50.5% of the total at December 31, 2022. However, insurers have been seeking investment gains through more risky investments such as unaffiliated equities and Schedule BA Assets (Other Invested Assets) in response to a prolonged lower interest rate environment experienced prior to the current year. Looking back 10 years, bonds accounted for 60.6% of total cash and invested assets at December 31, 2013 while unaffiliated equities were 15.7%.

For more than ten years, insurers have faced a challenging investment environment with interest rates at historic lows. However, the environment is becoming more attractive from a rate perspective as overall interest rates have been on the rise this year. The Fed increased the federal funds rate eight times in 2022 in response to historic inflation. Rising rates support investment income and should make insurers feel less pressure to invest in riskier assets. Higher rates, however, tend to negatively impact equity markets.

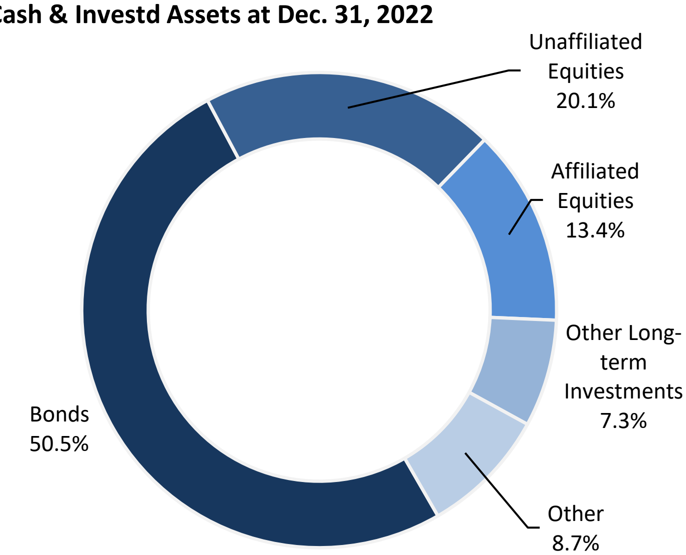
Investment Income ($B)



Total Gross Investment Income Earned ($B)



Cash & Investd Assets at Dec. 31, 2022



NET INCOME

Investment gains offset the underwriting loss resulting in net income of $38.9 billion. Although 35.6% lower than last year, the industry has reported net income for 21 consecutive years.

Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was considerably lower at 4.7% versus 7.9% for the prior year.

CASH & LIQUIDITY

Net cash provided by operating activities decreased 18.1% to $101.7 billion. Premiums collected net of reinsurance increased 7.3% to $765.5 billion, and net investment income (adjusted for affiliates) increased 19.7% to $68.8 billion leading to an 8.9% increase in operating cash inflows. Offsetting the increase in cash inflows was a 20.5% increase in benefit and loss related payments resulting in a 14.1% increase in cash outflows to $738.8 million.

The industry liquidity ratio remained solid even after a 5.2-point increase to 80.4% since the prior year end. Liquid assets were 1.3% lower while adjusted liabilities increased 5.5%.

CAPITAL & SURPLUS

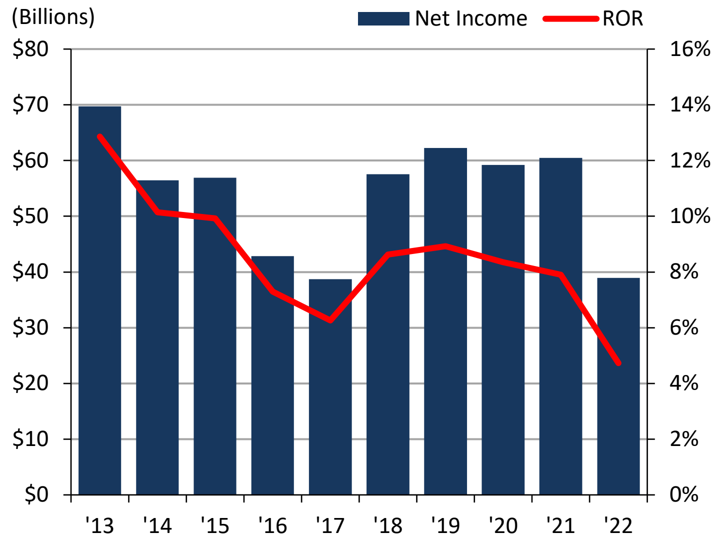
Industry aggregated policyholders' surplus (adjusted for affiliated investments) was 7.1% lower compared to the prior year end totaling $1.1 trillion at December 31, 2022. Despite the net income of $39.0 billion, the downturn in the stock market resulted in $105.9 billion in unrealized investment losses for insurers, the primary cause of the reduction in surplus.

Return on surplus—a measure of net income to average policyholders' surplus—was 2.2-points lower than last year at 3.7%.

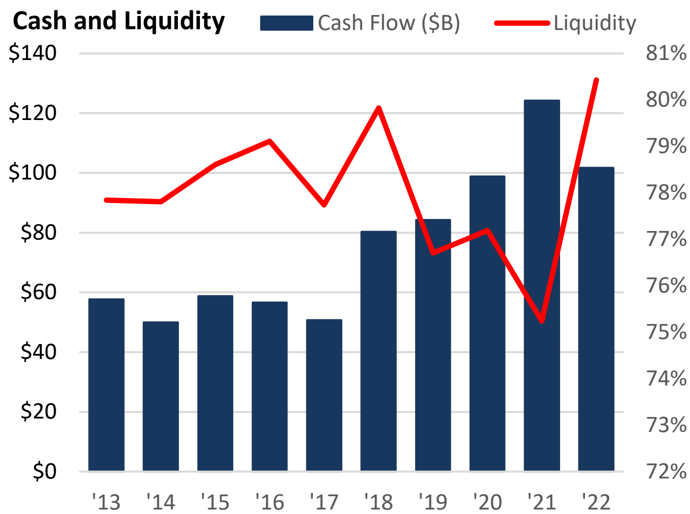
LOSS & LAE RESERVES

Total Loss and LAE reserves increased 7.7% to $859.5 billion and was comprised of $720.9 billion unpaid losses and $138.6 billion unpaid LAE. Reserve leverage worsened 11.9-points to 85.9% compared to 74.0% at the prior year-end primarily due to the decline in policyholders' surplus.

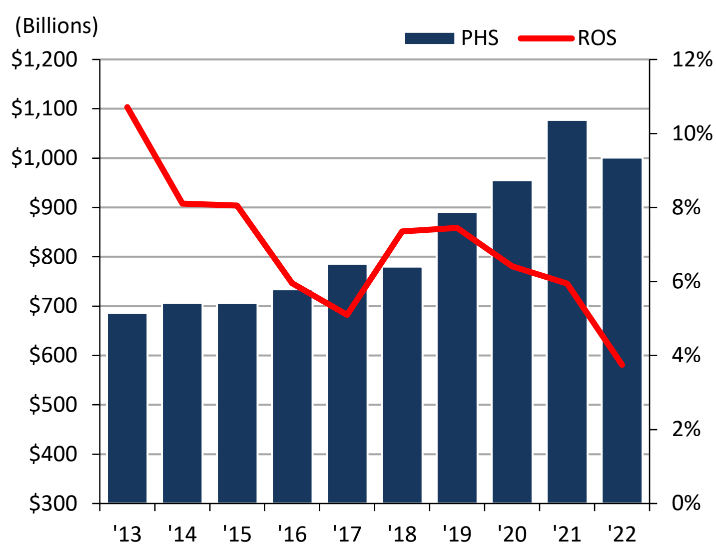
Profitability



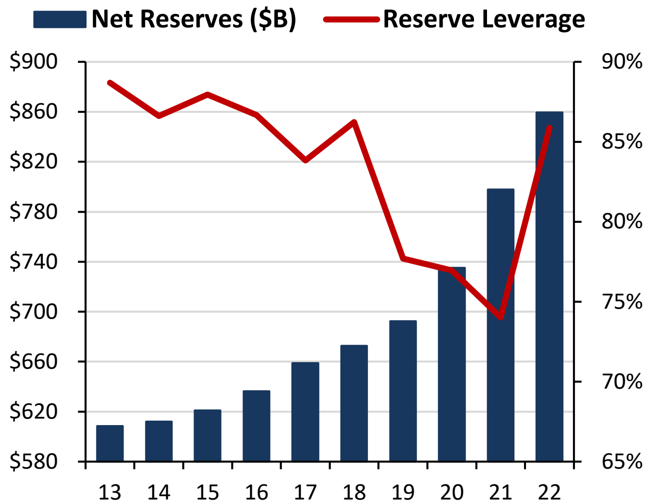
Cash and Liquidity

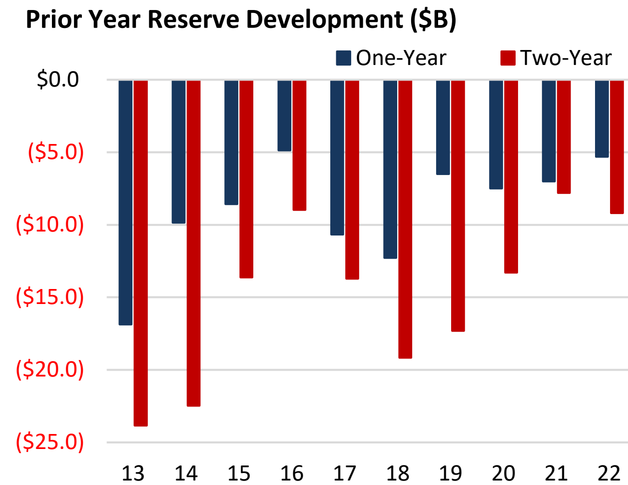


Policyholders' Surplus

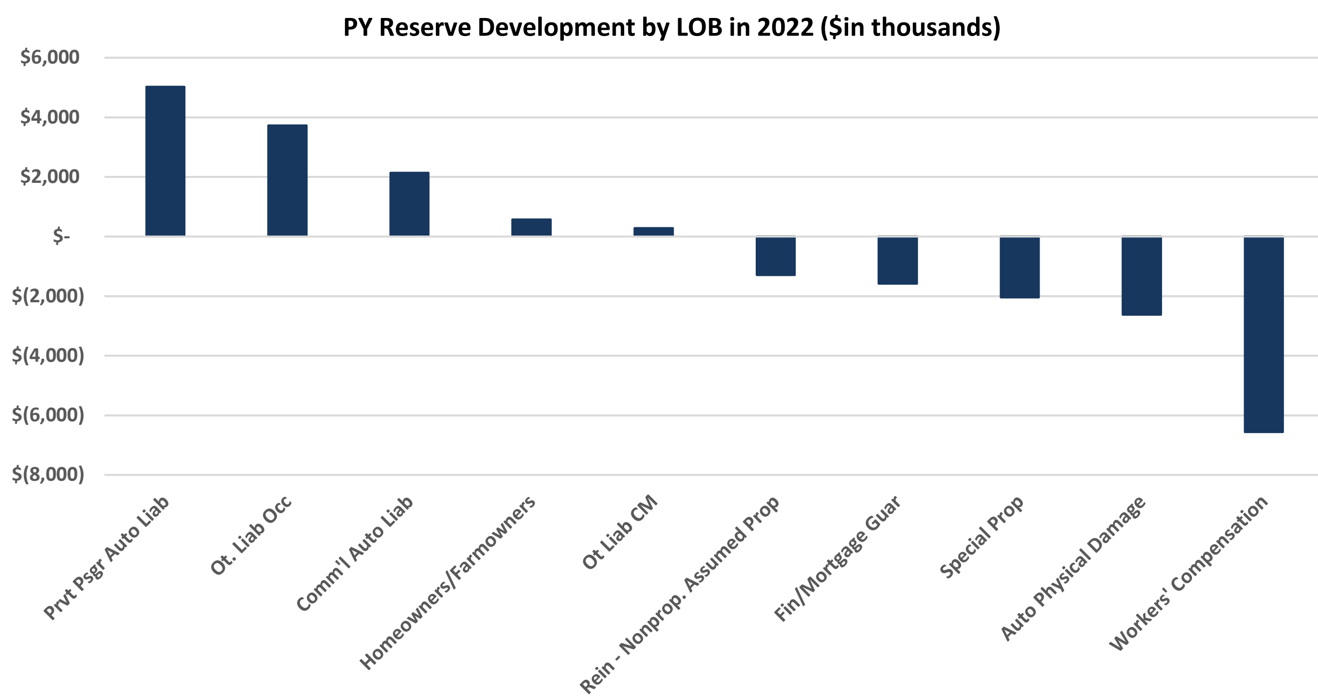


The trend of favorable prior year reserve development continued with a one-year redundancy of $5.3 billion and a two-year redundancy of $9.2 billion. However, the sustainability of reserve releases is being stressed by inflation as the pace of favorable reserve development is decelerating as shown in the chart on the right.





The chart below shows prior year reserve development by line of business with only the top five lines that reported favorable and unfavorable development. The main concern remains within liability lines which comprised roughly half of net premiums but over 80.0% of total loss and LAE reserves. Personal auto is starting to show signs of reserve adequacy concerns primarily due to inflation. Commercial auto and other liability lines experienced a trend of underwriting losses due to inadequate reserves, while workers' compensation reserves have been redundant in recent years. The industry reported overall favorable reserve development of $6.6 billion, workers' compensation comprised the majority of the favorable development.



Professional Reinsurance Market

Special Note: The definition used for professional reinsurance in this section has changed versus prior years. Previously, the analysis was of the largest reinsurers measured by unaffiliated Assumed Premiums Written (APW), limited to the cumulative market share of 75%. Starting with this year, the professional reinsurance market consists of insurers whose unaffiliated APW makes up 50% or more of their gross premiums written, limited to the twenty largest measured by unaffiliated APW. The following information reflects the aggregate results of the twenty professional reinsurers based in the United States, using this new definition, for the period 2018-2022.

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

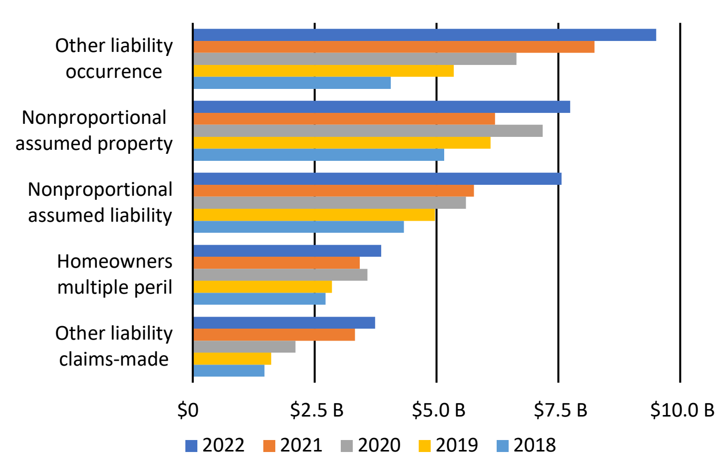
For the Year Ended December 31, 2022	YoY Chg	2022	2021	2020	2019	2018
Unaffiliated Assumed Premiums Written	10.8%	48,490	43,749	39,809	35,488	30,501
Net Premiums Written	7.8%	44,643	41,409	34,327	31,168	31,877
Net Premiums Earned	13.5%	43,701	38,496	32,654	30,662	29,588
Net Losses Incurred	11.4%	27,768	24,934	21,776	19,647	20,405
Loss Expenses Incurred	-0.4%	2,288	2,296	2,051	1,808	1,941
Underwriting Expenses	7.0%	13,703	12,802	11,078	10,057	10,873
Underwriting Gain (Loss)	-93.6%	(99)	(1,537)	(2,264)	(866)	(3,597)
Net Loss Ratio	(2.0)-pts	68.8%	70.7%	73.0%	70.0%	75.5%
Expense Ratio	(0.2)-pts	30.7%	30.9%	32.3%	32.3%	34.1%
Combined Ratio	(2.2)-pts	99.5%	101.7%	105.2%	102.2%	109.6%
Net Investment Income Earned	60.8%	3,141	1,953	2,258	2,641	2,366
Net Realized Gains (Loss)	NM	(934)	610	679	889	83
Net Investment Gain (Loss)	-13.9%	2,206	2,563	2,937	3,531	2,449
Investment Profit Ratio	(1.6)-pts	5.0%	6.7%	9.0%	11.5%	8.3%
Net Income	264.6%	2,138	587	985	2,269	(1,339)
Return on Revenue	3.2-pts	4.7%	1.4%	2.8%	6.6%	(4.2%)

Premium Analysis

Unaffiliated APW totaled $48.5 billion, an increase of 10.8% compared to $43.7 billion in 2021. The professional reinsurers accounted for 96.0% of the total compared to 97.3% in 2021.

Premium growth in 2022 reflected the ongoing hardening of the reinsurance market, particularly within catastrophe (CAT) reinsurance. Elevated CAT loss activity and decreasing investment gains have driven this market hardening.

Five Largest Lines by APW ($)

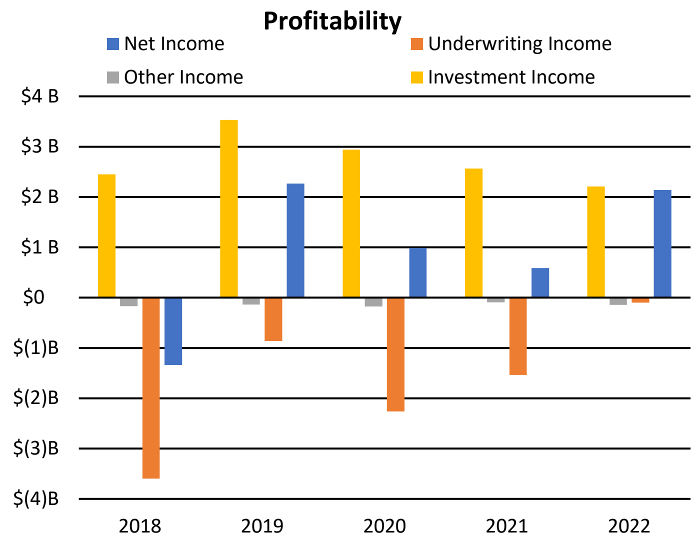


In 2022, five lines exceeded 5% or more of all unaffiliated assumed premiums among the top 20 professional reinsurers: other liability – occurrence (19.6%), reinsurance – nonproportional assumed property (16.0%), reinsurance – nonproportional assumed liability (15.6%), homeowners multiple peril (8.0%), and other liability – claims made (7.7%). Other liability – occurrence and the two nonproportional reinsurance lines have been the three largest lines, though not necessarily in the same order, for each of the past five years.

Net premiums written has increased steadily since 2019, up 7.8% year over year or 40.0% over the past five years to $44.6 billion. Unlike APW, NPW growth has been very uneven. Recent significant growth occurred in 2017-2018 (51.7%) and 2020-2021 (20.6%), while 2018-2019 declined 2.2%. Over the past five years, NPW has grown 19.0 points less than APW among professional reinsurers. The ratio of unaffiliated APW to NPW was 108.6%, up 2.9 points compared to 2021, but below the 2019 and 2020 values. The last time this ratio was below 100% was in 2018, when it was 95.7%.

Profitability

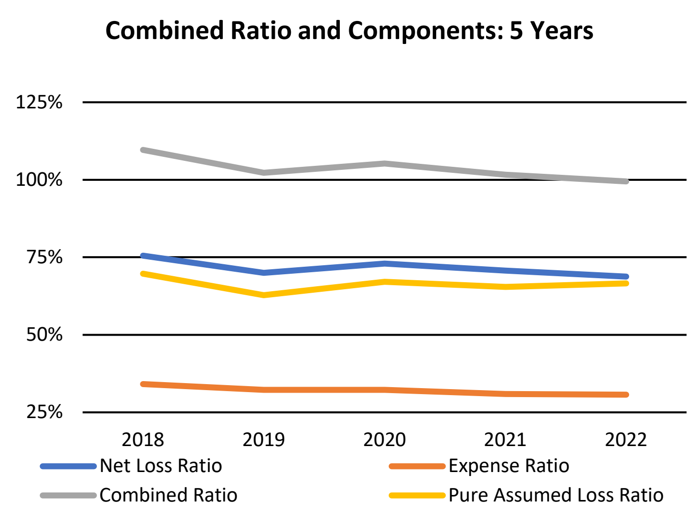
Net income for professional reinsurers totaled $2.1 billion, a 264.6% increase over 2021, but still slightly below (down 5.8%) the recent high in 2019. This marks the 4th year in a row in which the professional reinsurers were collectively profitable. Underwriting losses improved to $98.6 million, the best underwriting result of the past five years, up from a loss of $1.5 billion in 2021. Other income declined 56.9% to $(143.1) million, down $51.9 million YoY. Investment income also decreased, down 13.9% to $2.2 billion, but was more than enough to offset the underwriting and other income losses.



Except for the 2019-2020 period, there has been a steady improvement in underwriting losses over the past five years. This change may reflect the gradual hardening of the reinsurance market over that period. Unfortunately, investment income has steadily declined over the past four years and is of the same magnitude as the underwriting results. Until 2022, this had led to declining net income. The decline in the magnitude of the underwriting loss was much greater than the magnitude of the decline in investment income in 2022, leading to a spike in net income.

The professional reinsurance market recorded a Pure Assumed Loss Ratio (PALR) of 66.6% (adjusted for a negative outlier) in 2022. This is 0.9 points lower than in 2021, but higher than in 2019. Collectively, there was $38.7 billion in assumed losses incurred and $58.0 billion in assumed premiums earned, a decrease of approximately 12% in both values relative to 2021. Without adjustment, these values would have been a PALR of 42.0%, $25.9 billion in assumed losses incurred, and $61.6 billion in assumed premiums earned.

The combined ratio was 99.5% in 2022. This was a 2.2-point improvement over 2021, and the first year in the five year period in which the combined ratio was below 100%. The net loss ratio improved 1.9 points to 68.8%, again the best result in a five year period. The expense ratio was also the best in the five year period, decreasing 0.2 points to 30.7%. Finally, the policyholder dividend ratio value was also its lowest in five years, though with its maximum at 0.003% it was negligible in all five years as well.



Over the five year period, the combined ratio decreased a total of 10.1 points, composed of a 6.7-point decrease in the net loss ratio and a 3.4 point decrease in the expense ratio. Professional reinsurers reported a combined ratio 3 points better, a net loss ratio 7.6 points better, and an expense ratio that was 5 points worse than the property and casualty industry averages for 2022.

Two of the top five lines recorded combined ratios better than average and below 100%: other liability – claims-made (94.6%) and reinsurance – nonproportional assumed property (97.8%), making them the 24th and 27th (of 46) best lines among professional reinsurers by combined ratio. The other three lines recorded a combined ratio above the average, with other liability – occurrence at 100.4% (30th), homeowners at 105.3% (32nd), and reinsurance – nonproportional assumed liability at 114.8% (39th).

Capital and Surplus

During 2022, consolidated policyholder surplus declined 5.8% ($3.1 billion) to $49.5 billion. The single largest driver of this change was $3.8 billion in net unrealized capital losses. Other major drivers of the decline included changes in treasury stock ($(2.6) billion), dividends to stockholders ($(1.3) billion), and change in net deferred income tax ($(696.5) million). Declines were partially offset by gains to surplus from a cumulative $605.0 million change in surplus notes, $1.9 billion paid in surplus adjustments, and the $2.1 billion net income reported by professional reinsurers.

In 2022, the return on surplus was 4.2%, with an average policyholder surplus of $51.0 billion during the year.

Cash and Liquidity

Professional reinsurers increased their cash a collective $7.0 billion to $18.5 billion in 2022. This increase was driven nearly entirely by a $7.1 billion net cash from operations, with $642.0 million net cash from investments mostly offsetting -$729.4 million in net cash from financing.

Cash from operations was dominated by premiums and loss payments. Premiums collected of $42.1 billion accounted for 83.2% of cash inflows, while benefit and loss related payments were 61.3% ($26.6 billion) of the $43.4 billion in cash outflows. The only other material outflow was $16.8 billion in commissions, expenses paid, and aggregate write-ins for deductions.

Cash from investments showed greater investments than proceeds in mortgage loans ($178.5 million), miscellaneous applications ($72.3 million), and real estate ($2.4 million). These cash outflows were offset by greater proceeds than investments in stock ($920.0 million), other invested assets ($92.3 million), and bonds ($83.8 million). There were also $200.9 million in net losses on cash, cash equivalents, and short-term investments.

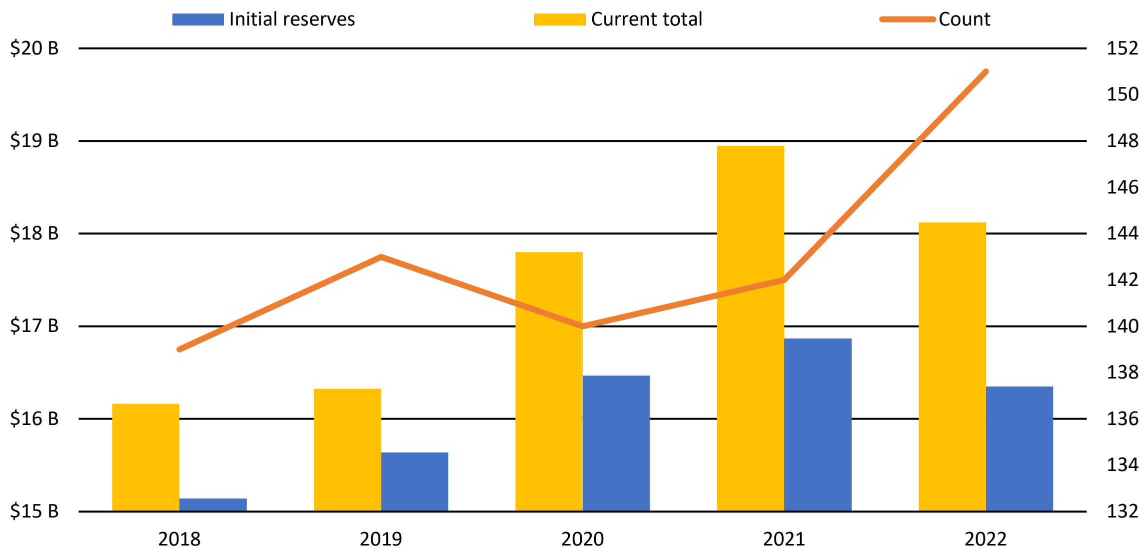
Cash from financing was dominated by $1.3 billion in other cash applied, offset by $1.1 billion in capital and paid in surplus. Additionally, $969.0 million were paid to stockholders as dividends, while $300.0 million in surplus notes and $241.2 million in borrowed funds provided cash to professional reinsurers.

Notably, there were also $30.3 billion in supplemental disclosures for non-cash transactions in 2022. This amount is particularly notable as it exceeds the net change in cash by more than 4x.

Professional reinsurers recorded $104.7 billion in liquid assets and $101.4 billion in adjusted liabilities in 2022, for a liquidity ratio of 96.9%. Across the 20 professional reinsurers, the best individual liquidity ratio was 60.7%, while the highest was 274.7% - an outlier significantly higher than the 2nd highest liquidity ratio of 135.8%.

Retroactive Reinsurance
In addition to prospective reinsurance, U.S. property and casualty insurers ceded $18.1 billion in reserves for retroactive reinsurance to both U.S. and non-U.S. reinsurers in 2022. Year-over-year, initial reserves decreased $519.9 million (3.1%) while the current year total reserves decreased $825.5 million (4.4%). Both initial reserves and the current year total reverse a recent trend of increasing amounts with these 2022 decreases. Despite the monetary decrease, the number of insurers ceding through retroactive contracts has increased from 142 in 2021 to 151 in 2022.

Retroactive Reinsurance Cessions



The majority, by dollar (at least $10.1 billion or 53.9%), of these retroactive reinsurance contracts are with a single large domestic insurer with more than half of their gross premiums written as affiliated assumptions, precluding them from inclusion as a professional reinsurer. Most of the balance of the contracts were with alien insurers not filing with the NAIC. Professional insurers accounted for 10.1% ($1.9 billion) of the retroactive reinsurance contracts, concentrated in a single professional reinsurer with at least $1.4 billion (7.6%) in contracts, with the next largest having $224.1 million (1.2%) in identified contracts. Five of the twenty professional reinsurers had no identifiable retroactive reinsurance contracts.

Title Insurance Industry

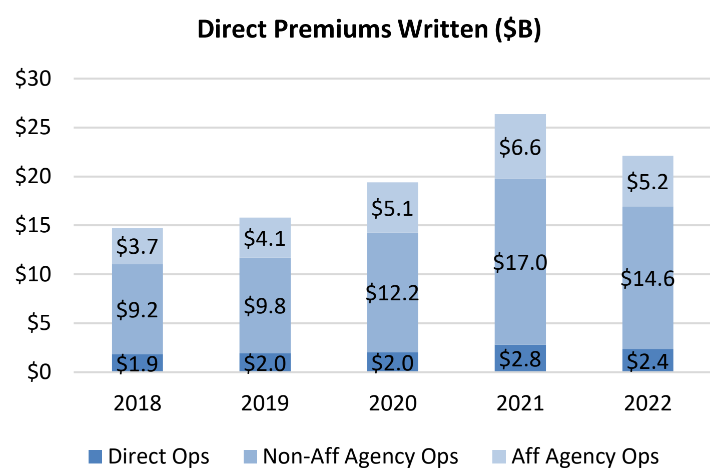
U.S. Title Insurance Industry Results (in millions, except for percent)

For the year ended December 31,	YoY Chg	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net Premiums Written	(16.1%)	$22,063	$26,311	$19,353	$15,752	$14,731	$14,617	$14,133	$12,964	$11,156	$12,569
Title Premiums Earned	(14.8%)	$21,814	$25,602	$19,054	$15,599	$14,678	$14,461	$13,976	$12,787	$11,389	$12,490
Loss & LAE Incurred	18.9%	$687	$578	$562	$605	$644	$629	$687	$672	$742	$825
Operating Exp. Incurred	(14.3%)	$20,879	$24,366	$18,310	$15,090	$14,137	$14,089	$13,357	$12,163	$10,659	$11,919
Net Operating Gain/(Loss)	(32.9%)	$1,797	$2,677	$1,804	$1,224	$1,103	$885	$871	$831	$799	$686
Net Loss Ratio	0.9 pts	3.2%	2.3%	2.9%	3.9%	4.4%	4.3%	4.9%	5.3%	6.5%	6.6%
Expense Ratio	2.0 pts	94.6%	92.6%	94.6%	95.6%	96.0%	96.4%	94.6%	93.9%	95.7%	94.8%
Combined Ratio	2.9 pts	97.8%	94.9%	97.6%	99.5%	100.4%	100.8%	99.5%	99.1%	102.2%	101.5%
Net Invmnt. Inc. Earned	59.4%	$527	$330	$385	$435	$360	$348	$276	$326	$261	$274
Net Realized Gains (Loss)	NM	$(58)	$91	$(40)	$75	$(75)	$142	$162	$9	$1	$26
Net Invmnt. Gain (Loss)	11.1%	$469	$422	$345	$510	$285	$489	$437	$336	$262	$299
Net Income	(27.1%)	$1,804	$2,474	$1,713	$1,391	$1,230	$1,016	$961	$871	$855	$769
Net Cash From Ops	(38.4%)	$2,024	$3,285	$2,145	$1,560	$1,441	$1,193	$1,081	$1,039	$698	$706
Liquidity Ratio	5.6 pts	70.6%	65.0%	67.1%	68.9%	66.9%	67.9%	70.6%	70.4%	73.3%	76.1%
December 31,	**YoY Chg**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Policyholders' Surplus	(15.9%)	$5,998	$7,134	$6,229	$5,664	$4,818	$4,800	$4,357	$4,121	$4,122	$3,842

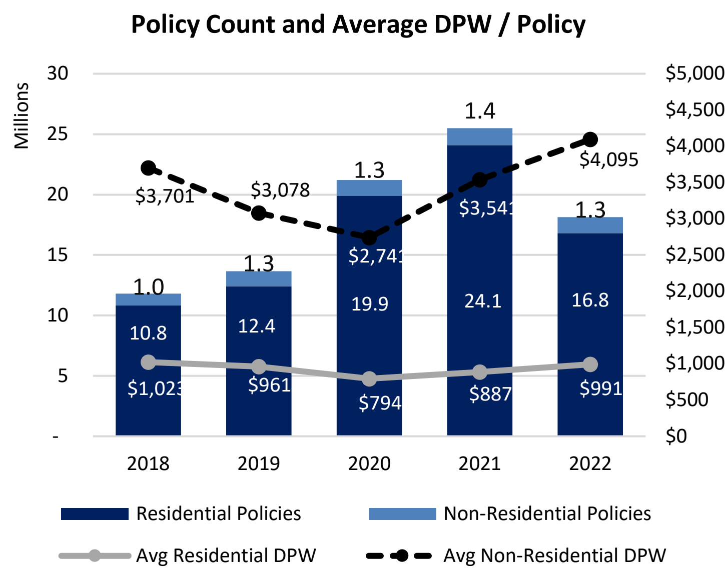
NM=Not Meaningful

Premium

Title industry premiums were almost entirely on a direct basis through either direct or agency operations. Direct premiums written (DPW) decreased 16.1% from the prior year to $22.1 billion and accounted for over 99% of gross premiums. The majority of direct premiums were represented by non-affiliated agency operations, which accounted for 65.9%. The decline in DPW is largely attributed to the high interest rate environment which impacted the number of consumers purchasing or refinancing homes. Net premiums totaled $22.1 billion following nominal ceded premiums resulting in a net retention of 99.6%.



The U.S. Census Bureau and the U.S. Department of Housing and Urban Development March 2023 report indicated that during 2022, there were 1.6 million new housing starts (not seasonally adjusted), which was down 3.0% from 2021. Minor growth was recorded for the Northeast region, but the Midwest, South, and West all saw decreases in new housing starts compared to 2021. In addition, new housing permits in 2022 decreased 4.9% compared to 2021, while housing completions increased 3.7% (not seasonally adjusted). Seasonally adjusted new housing starts were down 17.2% in March 2023 from March 2022, which signifies that the slide in title premiums will continue in 2023.



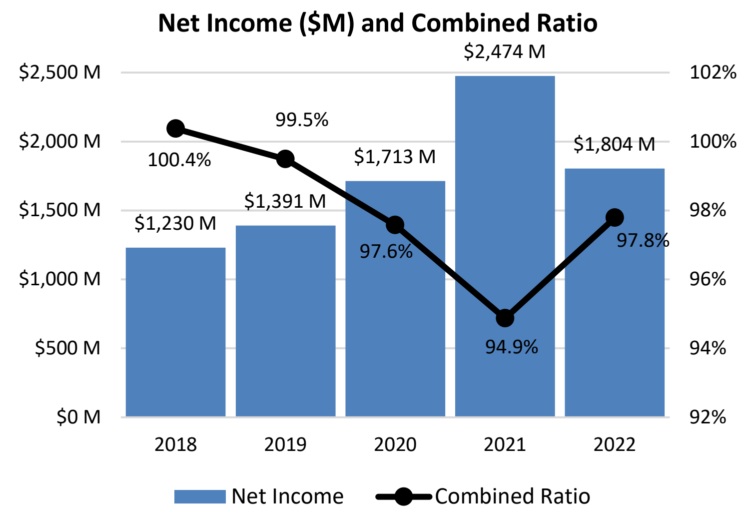
The five largest states by DPW (TX, FL, CA, NY, and PA) remained unchanged from the prior year and accounted for 47.7% of the 2022 market, a 1.4-point increase from 2021. The YoY average change in DPW was (13.0%) compared to 35.9% in 2021. As seen in the chart, two of the five largest states (CA and PA) reported YoY decreases greater than the average. Only Northern Mariana Islands, U.S. Virgin Islands, Guam, and Tennessee reported YoY DPW growth.

A total of 18.1 million policies were issued in 2022, which was down 28.9% compared to 2021, as expected with the decline in writings. Residential policies dropped 30.2% to 16.8 million and non-residential policies dropped 5.4% to 1.3 million. Residential policies continued to make up the vast majority of policies, accounting for 92.7% of total policies in 2022, and was $16.7 million, or 75.3% of total DPW (an average of $991 per residential policy, up 11.7% from 2021). Non-residential policies averaged $4,095 per policy, which was a 15.7% increase compared to 2021.

$ amounts per policy	# Policies	Net Premiums Earned	Direct Losses Paid	Direct Allocated LAE Paid	Direct Losses and LAE Incurred	Direct Known Claim Reserves
Direct						
2022	1,469,998	$1,665	$55	$37	$87	$94
2021	2,174,237	$1,294	$33	$23	$49	$66
Non-affiliated Agents						
2022	11,364,578	$1,256	$16	$12	$28	$33
2021	15,879,032	$1,040	$8	$7	$19	$24
Affiliated Agents						
2022	5,307,433	$959	$17	$11	$27	$25
2021	7,446,772	$843	$8	$7	$12	$18
Overall						
2022	18,142,009	$1,202	$20	$14	$33	$36
2021	25,500,041	$1,004	$10	$9	$19	$26

Although the overall policy count decreased by over seven million, net premiums earned per policy for the industry increased 19.7% to $1,202. However, direct losses paid doubled to $20 per policy, direct allocated LAE paid increased

55.6% to $14 per policy, and direct losses and LAE incurred increased 73.7% to $33 per policy. Direct policies as well as affiliated and non-affiliated agents policies each decreased in 2022, but each saw YoY increases in net premiums earned and direct losses and LAE paid and incurred.



Profitability

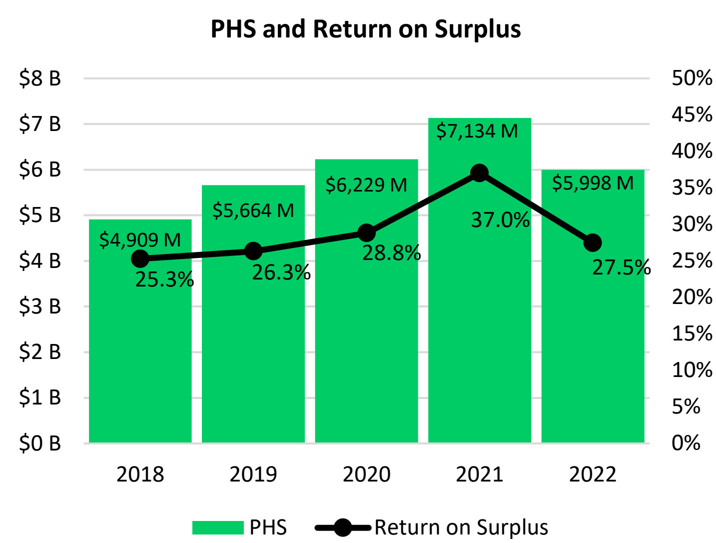
Operating income dropped 15.4% compared to 2021 to $23.4 billion primarily due to a 14.8% decrease in premiums earned to $21.8 billion, which can be attributed to the drop in premiums written. Operating expenses decreased 13.5% to $21.6 billion primarily as a result of decreased operating expenses incurred as both losses and LAE incurred and other operating expenses both increased. Net operating gains dropped 32.9% to $1.8 billion.

Net investment gains grew 11.1% to $468.8 million due to a 59.4% increase in net investment income earned to $526.8 million, which offset $58.0 million net realized capital losses. The growth in investment gains was unable to offset the drop in operating gains, resulting in a 27.1% decrease in net income to $1.8 billion, which disrupted the YoY net income growth trend.

The combined ratio worsened 2.9 points to 97.8%, mainly due to the decrease in premiums written, and was comprised of a net loss ratio of 3.2% (up 0.9 points) and an expense ratio of 94.6% (up 2.0 points). This was the fourth consecutive year the industry reported a combined ratio under 100%.

Capital & Surplus

After YoY growth in the previous five years, policyholders' surplus (PHS) dropped 15.9% to $6.0 billion. The main contributing factors driving this decrease were net unrealized capital losses which totaled $759.5 million compared to net unrealized gains in 2021 of $178.2 million and dividends paid to stockholders which increased 19.3% to $2.0 billion. Other less material factors driving the decline were a $93.3 million increase in nonadmitted assets, a $48.2 million decline in surplus notes, $20.9 million net unrealized foreign exchange capital losses, and $37.7 million attributed to aggregate write-ins for losses in surplus. Return on surplus decreased 9.5 points to 27.5%.



Cash & Liquidity

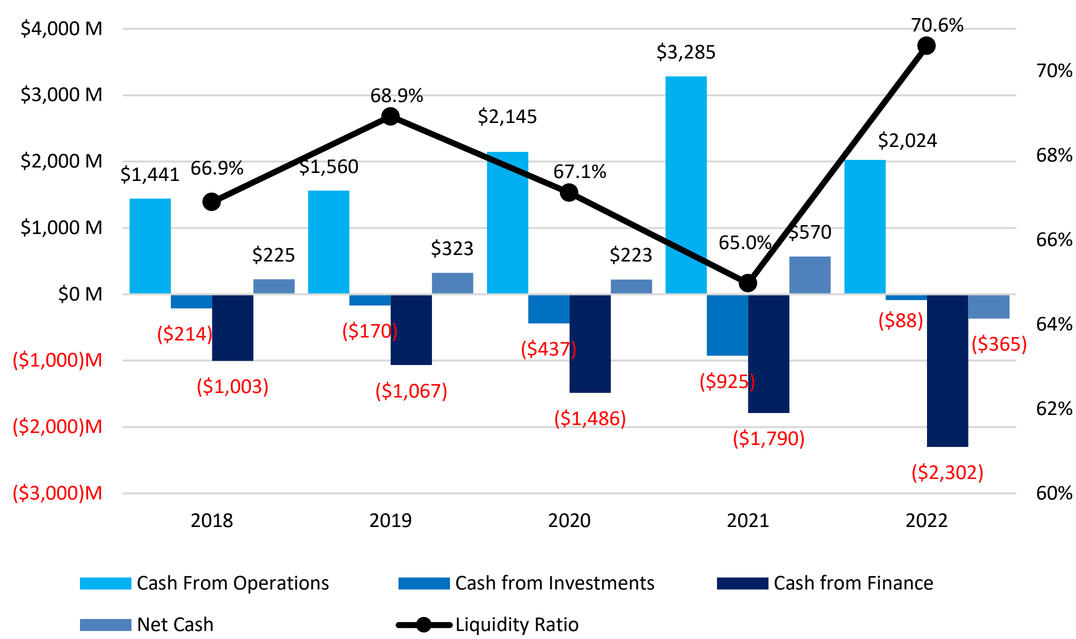
Net cash from operations decreased 38.4% to $2.0 billion in 2022 after YoY growth for seven years. Cash inflows were down 14.8% to $24.3 billion primarily due to a 15.2% decrease in premiums collected net of reinsurance. Cash outflows decreased 11.8% to $22.3 billion primarily due to a 12.4% decrease in commissions, expenses paid, and aggregate write-ins for deductions.

Net cash from investments improved 90.5% compared to 2021, however still totaled $(87.7) million. The largest investments held, in order, were bonds, stocks, and other invested assets. Investment proceeds were up 36.6%, totaling $3.3 billion and was primarily from bonds and stocks, of which proceeds grew 42.5% to $2.5 billion and 73.2% to $703.5 million, respectively, and helped offset a 45.8%, or $114.2 million, decrease in other invested assets. Total investments acquired increased 1.7% to $3.4 billion. Acquired stocks decreased 84.3% to $151.7 million and helped offset an increase in bonds and other invested assets of 29.7% to $2.9 billion and 96.4% to $259.1 million, respectively.

Net cash from financing and miscellaneous sources decreased 28.6% to $(2.3) billion and was largely due to the 19.2% increase in dividends to stockholders to $2.0 billion. The net change in cash was $(365.4) million, compared to $569.6 million in 2021, to $2.2 billion in cash, cash equivalents, and short-term investments as of December 31, 2022.

The industry's liquidity ratio worsened 5.6 points to 70.6%. Adjusted liabilities decreased 2.7% to $6.9 billion, however liquid assets also decreased 10.5% to $9.8 billion. In addition, other invested assets nearly doubled from 2021 to $337.3 million, a ten-year high.

Cash Flows ($M) and Liquidity Ratio



NAIC Financial Regulatory Services
Financial Analysis and Examination Department

Contributors:
Brian Briggs, Senior Financial Analyst
BBriggs@naic.org
816-783-8925

Topher Hughes, Financial Analyst II
CHughes@naic.org
816-783-8125

Shelby Milligan, Financial Analyst II
SMilligan@naic.org
816-783-8437

Contacts:
Bruce Jenson, Assistant Director - Solvency Monitoring
BJenson@naic.org
816-783-8348

Andy Daleo, Senior Manager – P/C Domestic and International Analysis
ADaleo@naic.org
816-783-8141

Rodney Good, Property/Casualty & Title Financial Analysis Manager
RGood@naic.org
816-783-8430

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

