Property & Casualty Insurance Industry

Property & Casualty Industry Overview

Increased underwriting discipline, continued rate increases, lower catastrophe losses, and an improving commercial and personal auto market have contributed to solid underwriting performance in the U.S. property and casualty insurance industry in the first half of 2019. The industry reported a $6.5 billion underwriting gain, slightly lower than the $7.0 billion gain in the prior year period as net losses and LAE incurred increased at a higher rate than net premiums earned. The underwriting gain, combined with solid investment performance, contributed to a net profit of $34.8 billion. After factoring in unrealized capital gains, consolidated policyholders surplus increased 7.6% to $838.9 billion at June 30, 2019, an all new high.

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

For the six months ended June 30,	Chg.	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Direct Premiums Written	4.3%	$355.2	$340.6	$321.3	$306.9	$295.5	$282.8	$269.1	$259.9	$249.0	$242.8
Net Premiums Written	(0.5%)	$315.3	$316.7	$280.4	$268.8	$261.1	$251.4	$241.4	$231.6	$223.0	$217.0
Net Premiums Earned	3.6%	$308.0	$297.4	$270.4	$261.7	$252.5	$243.0	$243.0	$223.4	$216.8	$211.9
Net Loss & LAE Incurred	5.2%	$215.6	$204.9	$197.5	$186.9	$175.0	$171.8	$159.5	$163.8	$177.7	$155.8
Underwriting Expenses	0.1%	$85.4	$85.3	$75.8	$74.5	$72.4	$69.3	$67.6	$65.6	$62.6	$61.1
Underwriting Gain (Loss)	(6.9%)	$6.5	$7.0	($3.2)	($0.2)	$4.7	$1.5	$5.8	($5.9)	($23.7)	($4.7)
Net Loss Ratio	1.1 pts	70.0%	68.9%	73.0%	71.4%	69.3%	70.7%	70.7%	73.3%	82.0%	73.5%
Expense Ratio	0.1 pts	27.1%	26.9%	27.0%	27.7%	27.7%	27.6%	26.9%	28.3%	28.1%	28.1%
Dividend Ratio	0.0 pts	0.55%	0.53%	0.54%	0.55%	0.53%	0.57%	0.52%	0.48%	0.53%	0.50%
Combined Ratio	1.3 pts	97.6%	96.3%	100.6%	99.7%	97.6%	98.8%	98.1%	102.2%	110.6%	102.1%
Investment Inc. Earned	1.5%	$29.3	$28.9	$25.6	$24.2	$24.7	$25.2	$27.0	$25.4	$27.1	$27.8
Realized Gains (Losses)	(17.9%)	$4.5	$5.5	$3.9	$4.8	$8.5	$7.6	$11.1	$4.1	$3.9	$4.4
Investment Gain (Loss)	(1.6%)	$33.8	$34.4	$29.5	$29.0	$33.2	$32.8	$38.1	$29.5	$31.0	$32.1
Investment Yield (a)	(0.03)-pts	3.47%	3.50%	3.28%	3.24%	3.32%	3.48%	3.96%	3.85%	4.09%	4.42%
Net Income (b)	(2.8%)	$34.8	$35.8	$17.7	$22.2	$32.7	$28.5	$35.7	$20.1	$6.6	$22.2
Return on Revenue	(5.6%)	10.2%	10.8%	5.9%	7.6%	11.4%	10.3%	12.7%	8.0%	2.6%	9.1%
		June 30,	December 31, 2010-2018								
	Chg.	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Capital & Surplus (b)	7.6%	$838.9	$780.0	$786.0	$734.0	$705.9	$706.7	$686.1	$615.8	$578.3	$587.6

(a) annualized, (b) adjusted to removed stacked entities

Market Conditions

The current state of the U.S. Property and Casualty market can be described as firming, albeit slightly. Many companies are implementing rate increases and/or making changes to terms and conditions in response to two consecutive years of severe losses and a low interest rate environment. According to The Council of Insurance Agents & Brokers' (CIAB) *Commercial Property/Casualty Market Report Q2 2019 (April 1—June 30)*, premium pricing increased moderately for all commercial lines of business, except for workers' compensation. The average increase was 4.6% in Q2 2019, the seventh consecutive quarter in which rates were higher.

3 months ended	COMM'L AUTO	WORKERS' COMP	COMM'L PROPERTY	GEN'L LIABILITY	UMBRELLA	AVERAGE
Second Quarter 2019	8.4%	(2.5%)	8.5%	3.2%	5.7%	4.6%
First Quarter 2019	8.8%	(3.3%)	5.9%	2.0%	3.3%	3.4%
Fourth Quarter 2018	7.0%	(3.3%)	2.9%	1.4%	2.3%	2.1%
Third Quarter 2018	7.0%	(2.6%)	2.9%	0.8%	1.4%	1.9%
Second Quarter 2018	8.2%	(2.9%)	2.2%	0.8%	1.5%	2.0%
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	(11.6%)	(12.3%)	(15.0%)	(13.6%)	(13.5%)	(13.2%)

Source:
The Council of Insurance Agents & Brokers. Chart prepared by Barclays Research.

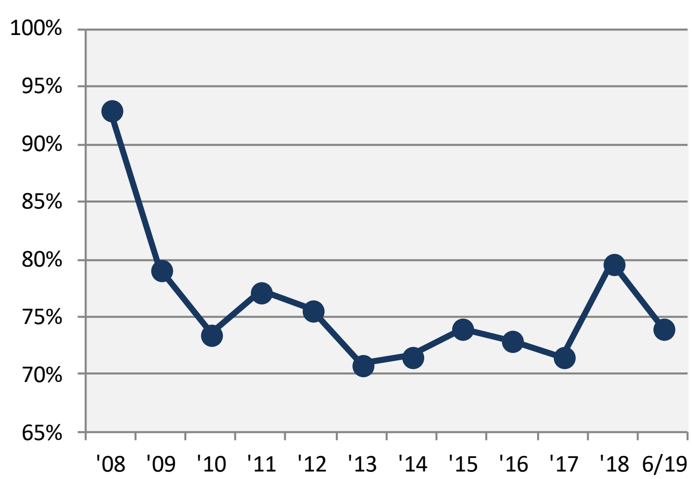
In addition to commercial pricing trends, the following key takeaways were included in the CIAB report:

- Commercial Property was the most problematic line of business this quarter. Respondents identified wildfires as one of the major reasons for carrier restrictiveness in the southwest and northwest United States. Midwest brokers named flooding as the culprit. In the spring, midwestern communities experienced flooding around the Mississippi and Missouri Rivers.
- Q2 2019 was the 32nd consecutive quarter of increased commercial auto rates: premium pricing for commercial auto increased 8.4 percent.
- The top three client concerns reported by respondents were future premium increases, cyber risk, and limitations on coverage.

Capacity

Although the industry saw increased catastrophe losses over the past two years and has confronted a soft market cycle and modest investment returns since 2007, profit margins have been stable and gains in policyholders surplus has mostly been organic. As a result, capacity remains abundant with a net writings leverage ratio for the trailing twelve months improving to 73.9%—as shown in the accompanying chart. Many insurers have utilized excess capital to acquire other companies in order to increase market share. The intense market competition has also pushed several smaller insurers out of the market. As a result, the number of property and casualty filers continued a 11-year decline to 2,583 at June 30, 2019, compared to 2,838 in 2008.

Net Writings Leverage



Writings

Growth in direct writings continued for the 37th consecutive quarter over the same prior year quarters with an average 4.0% growth rate during this period. All three markets, Personal, Commercial, and Combined Lines experienced growth in direct writings in the current period. Direct premiums written (DPW) increased 4.3% to $355.2 billion in the first half of 2019 compared to $340.6 billion for the same period in 2018.

DPW in the **Personal Lines Market** increased 3.9%, or $6.9 billion to $183.3 billion (51.7% of total DPW).

- Private Passenger Auto Liability: +2.5%, or $1.9 billion to $76.1 billion
- Auto Physical Damage: +4.6%, or $2.5 billion to $56.5 billion
- Homeowners Multiple Peril: +5.3%, or $2.6 billion to $50.7 billion

DPW in the **Commercial lines Market** increased 4.4% , or $5.4 billion to $128.2 billion (36.1% of total DPW). The following lines of business comprised 83.0% of Commercial Lines direct premiums:

- Other Liability +8.5%, or $2.9 billion to $37.2 billion
- Commercial Multiple Peril +5.0%, or $1.1 billion to $22.2 billion
- Commercial Auto Liability +11.0%, or $1.7 billion to $17.4 billion
- Workers' Compensation - 3.5%, or $1.1 billion to $29.6 billion

DPW in the **Combined Lines Market** increased 5.4%, or $2.2 billion to $43.4 billion (12.2% of total DPW). The following lines of business comprised 81.4% of Combined Lines direct premiums:

- Allied Lines +2.6%, or $373.1 million to $14.7 billion
- Inland Marine +6.4%, or $792.4 million to $13.2 billion
- Fire +10.1%, or $755 thousand to $7.5 billion

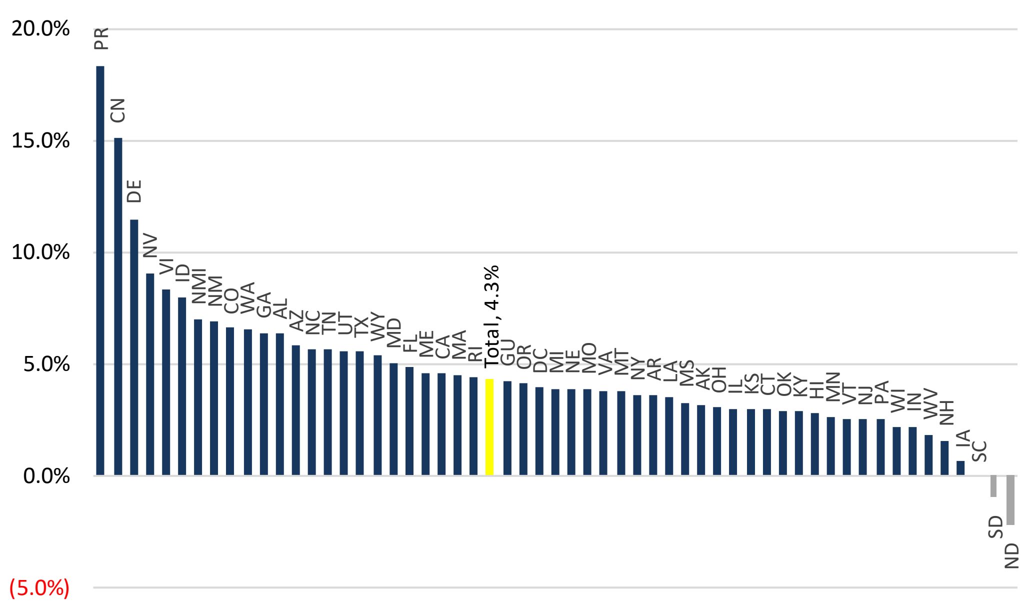
DPW by State, Territories

Nearly all states and territories experienced DPW growth compared to the prior year-to-date. On a percentage basis, Puerto Rico, Canada, and Delaware experienced the largest growth, all with double-digit increases. On a currency basis, California, Texas, and Florida were among the premium growth leaders. The chart below, shows the percent change in DPW by state, territory and foreign for the current period compared to the prior year period.

Net Premiums Written

On a net basis, writings decreased 0.5% to $315.3 billion as cessions were nearly 10.0% higher compared to the same period last year.

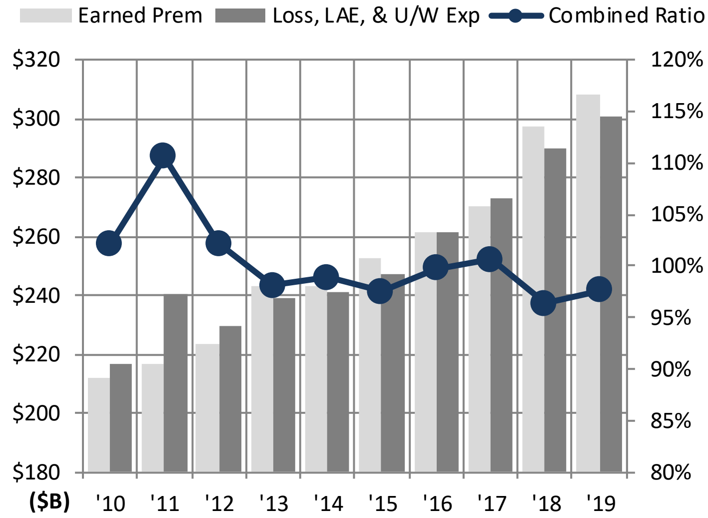
Geographic Change in DPW (CYTD to PYTD)



Underwriting Operations

Underwriting gains continued for the second consecutive mid-year period, with a $6.5 billion gain reported for the current period, slightly lower than the $7.0 billion gain reported at mid-year 2018. The strong results in the past two mid-years can be attributed to lower first half catastrophe losses and improvement in the auto market. For the current period, net premiums earned increased by 3.6% to $308.0 billion while aggregated net losses, LAE, and other underwriting expenses incurred increased 3.7% to $301.0 billion. The combined ratio worsened 1.3-points to 97.6%—represented by a 70.0% net loss ratio, a 27.1% expense ratio, and a 0.55% dividend ratio.

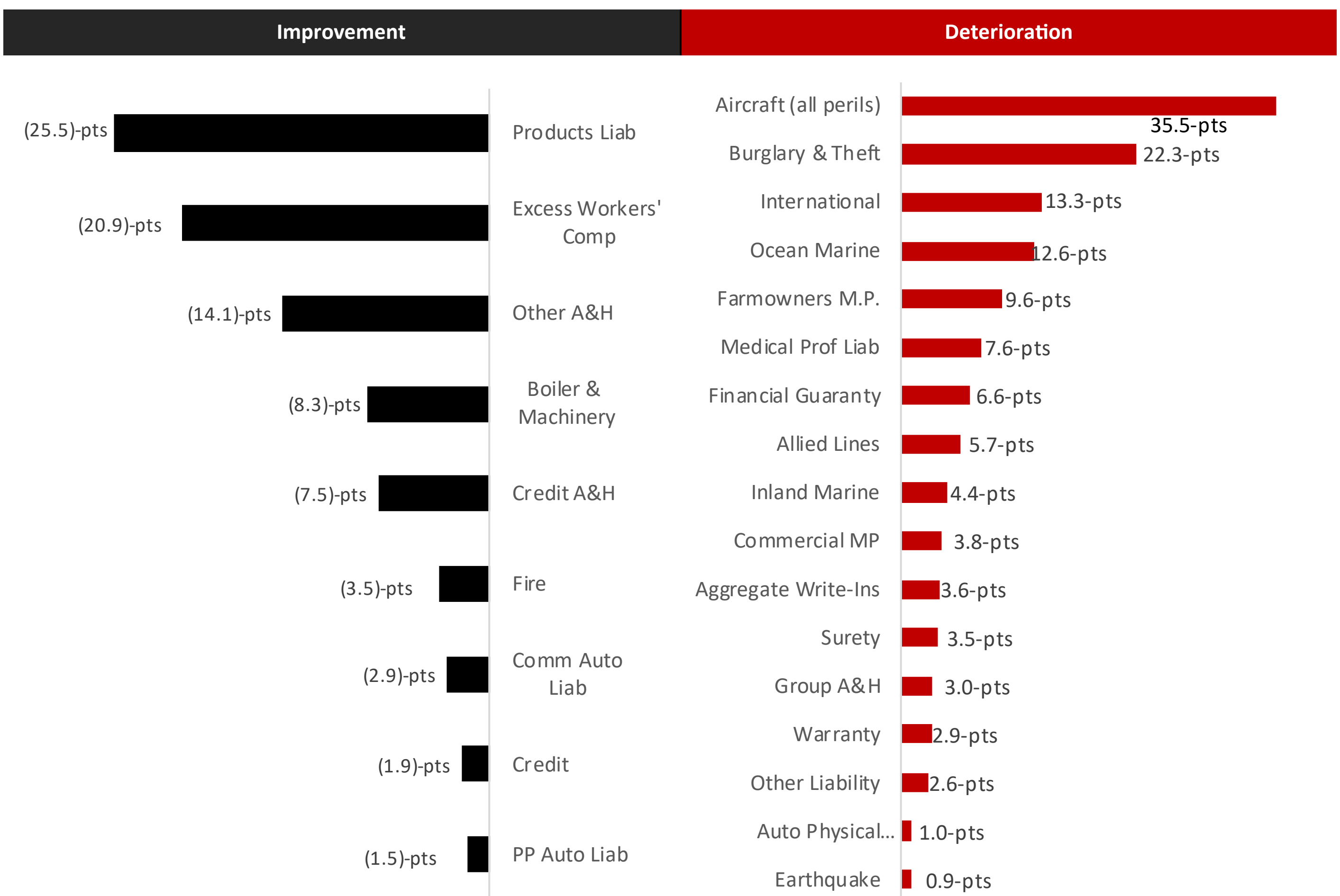
Underwriting Income (Six months ended June 30)



Pure Direct Loss Ratio

On a direct basis, the industry's overall pure direct loss ratio (PDLR) worsened 0.8-points compared to a year ago to 59.0% as the increase in direct losses incurred of 6.2% outpaced the 4.8% increase in direct premiums earned. Below are the PDLRs by market and by lines of business. It was noted that the PDLR worsened in 19 out of 30 lines of business. The Personal Lines Market PDLR was 63.2%, a 0.3-point improvement, the Commercial Lines Market PDLR worsened 1.9-points to 55.8%, and the Combined Lines Market PDLR worsened 2.4-points to 50.1%.

PDLR by Lines of Business (ordered by pt. change ascending (improvement) and descending (deterioration))



Investment Operations

Industry investment gains were 1.6% lower compared to mid year 2018, totaling $33.8 billion at June 30, 2019. Net investment income earned increased 1.5% to $29.3 billion, while realized gains were 17.9% lower at $4.5 billion. The Investment yield (annualized) was 3.47% versus 3.50% for the prior year period. One of the key drivers of the investment yield is changes to the Federal Funds Rate.

In December, 2018, the Federal Reserve (Fed) made a quarter-point rate hike, its ninth since December 2015. The Fed's decision to increase rates was primarily due to a strengthening labor market and steady growth in household spending. In August and September of 2019, however, the Fed reduced rates by a quarter-point each. Although the unemployment rate remained low and growth of household spending picked up, the Fed cited soft growth of business fixed investment income and low inflation for items other than food and energy, which were below the target of 2.0%.

The chart to the right shows the industry's cash and invested assets allocation. Bonds comprised the majority of cash and invested assets totaling $1.1 trillion, which equated to 52.9% of total cash and invested assets, followed by unaffiliated common stocks of $349.3 billion (17.3% of total cash and invested assets), and $288.1 billion affiliated common stocks (14.3% of total cash and invested assets).

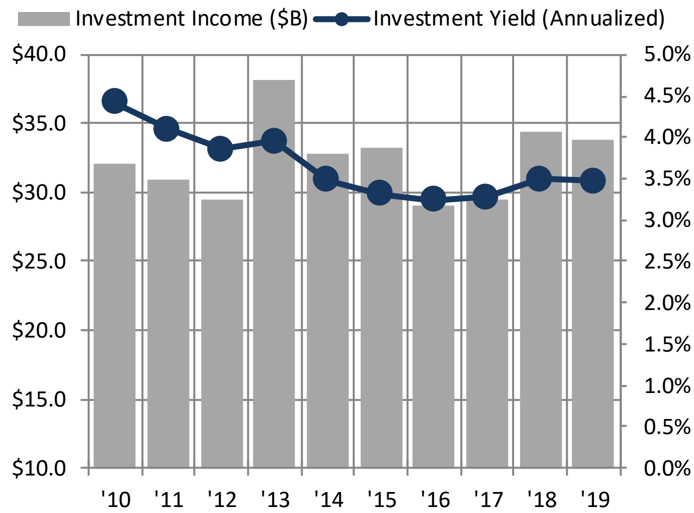
Many insurers have shifted their investment strategy in recent years in favor of riskier investments (e.g., unaffiliated common stocks, and Schedule BA assets) over lower risk investments. In comparison, at December 31, 2008, bonds comprised 62.8% of cash and invested assets, and unaffiliated stocks 9.9%.

Net Income

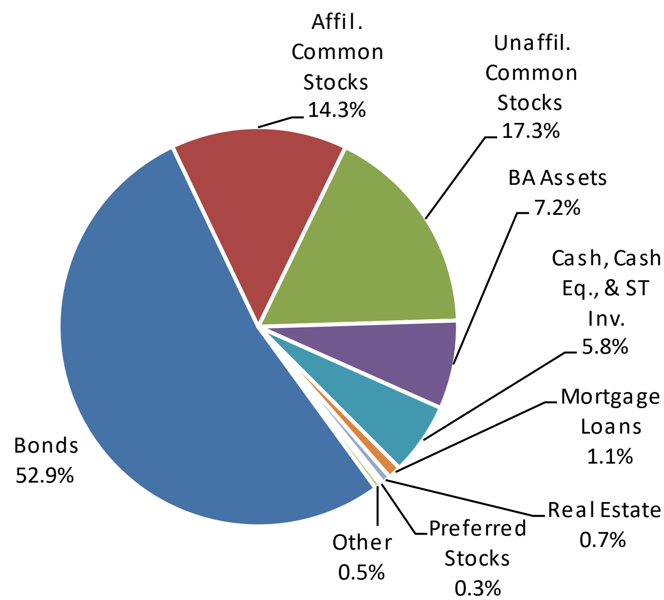
For the first half of 2019 the Industry reported net income of $34.8 billion which was 2.8% lower compared to the prior year period. An underwriting gain of $6.5 billion and investment gains of $33.8 billion were partially offset by taxes and policyholder dividends.

Return on revenue was 0.6-points lower compared to the prior year period to 10.2%.

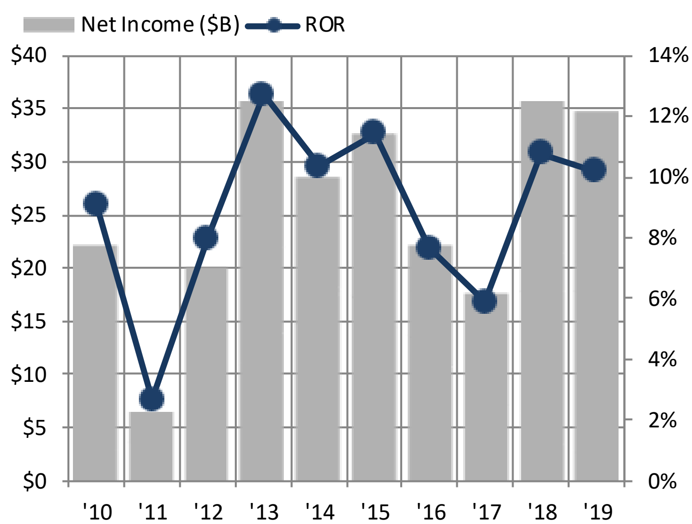
Investment Income (Six months ended June 30)



Cash & Invested Assets



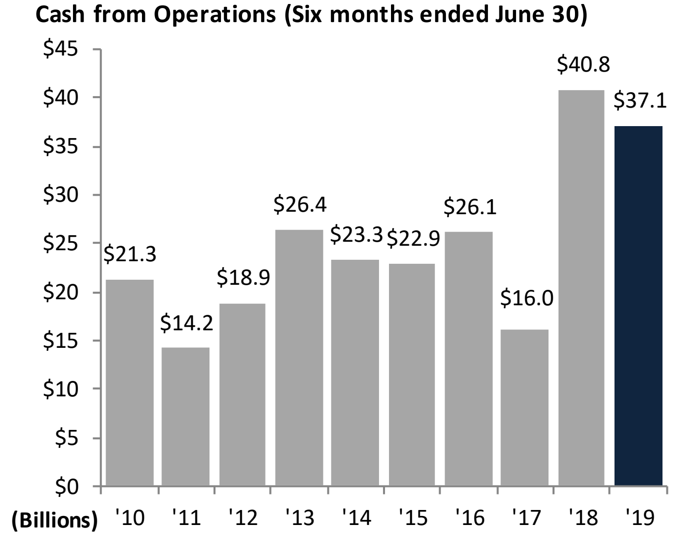
Net Income (Six months ended June 30)



Cash & Liquidity

Net cash provided by operating activities totaled $37.1 billion for the first six months of 2019 compared to $40.8 billion for the same period in 2018. The slight decrease stemmed from a 5.6%, or $9.6 billion increase in benefit and loss related payments and a 5.2% increase in commissions and expenses paid which resulted in a 3.9% increase in cash outflows, partially offset by a 2.3% increase in cash inflows due to increases in premiums collected and net investment income.

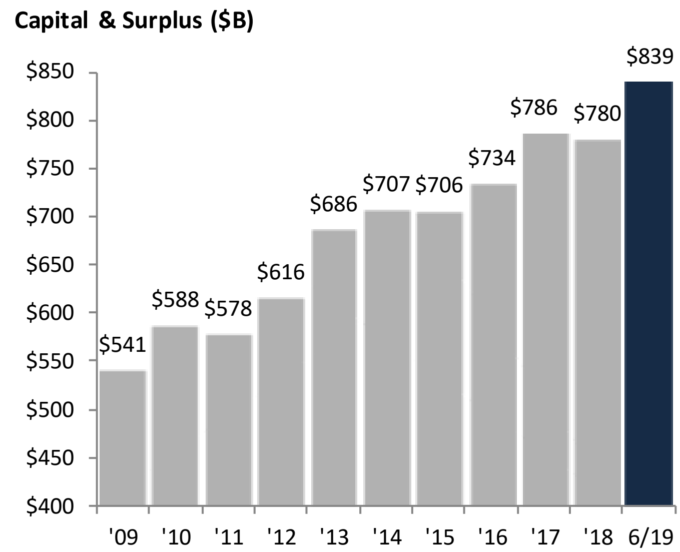
The industry liquidity ratio was 77.7% at June 30, 2019, a 1.0-point improvement compared to the prior year period. The increase in liquid assets of 4.9% outpaced the 3.6% increase in adjusted liabilities.



Capital & Surplus

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 7.6% since the prior year-end to a new high of $838.9 billion at June 30, 2019. The increase was mostly attributed to:

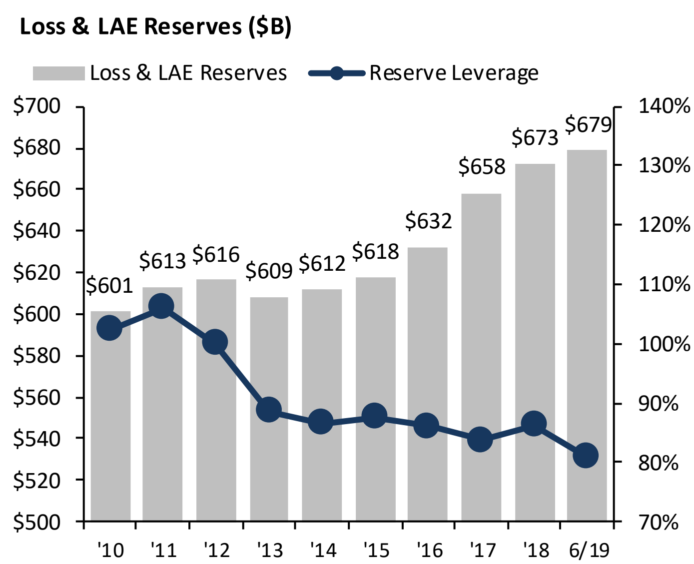
- Net income of $34.8 billion;
- Unrealized capital gains of $55.2 billion;
- Partially offset by $13.6 billion in stockholder dividends.



Loss & LAE Reserves

Loss and LAE reserves increased 0.9%, or $6.2 billion since the prior year-end to $678.8 billion at June 30, 2019, comprised of $561.7 billion unpaid losses and $117.1 billion unpaid LAE. Reserve leverage fell 5.3-points to 80.9% compared to 86.2% at year-end 2018.

The trend in net favorable loss reserve development continued with an overall redundancy of $5.7 billion through mid-year, which consisted of a $43.7 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $38.0 billion deficiency in prior year known case loss and LAE reserves.



Title Insurance Industry

Title Industry Results (in millions, except for percent)

For the six months ended June 30,	Chg.	2019	2018	2017	2016	2015
Direct Premiums Written	(1.3)%	$6,931	$7,019	$6,957	$6,428	$5,999
Direct Ops.	2.7%	$854	$832	$832	$694	$683
Non-Aff. Agency Ops.	(2.0)%	$4,266	$4,354	$4,354	$4,020	$3,575
Aff. Agency Ops.	(1.2)%	$1,811	$1,833	$1,833	$1,714	$1,740
Premiums Earned	(1.3)%	$6,888	$6,982	$6,867	$6,357	$5,865
Loss & LAE Incurred	(7.5)%	$283	$306	$291	$304	$322
Operating Exp Incurred	(0.2)%	$6,727	$6,739	$6,541	$6,098	$5,681
Net Operating Gain/(Loss)	(6.8)%	$465	$499	$450	$384	$294
Net Inv. Income Earned	26.5%	$203	$160	$182	$119	$110
Net Realized Gain/(Loss)	231.2%	$44	$13	$14	$159	$8
Net Inv. Gain (Loss)	42.3%	$247	$174	$196	$277	$118
Net Income	(13.5)%	$585	$676	$468	$496	$287
Loss Ratio	(0.3)-pts	4.1%	4.4%	4.3%	4.8%	5.5%
Expense Ratio	1.1-pts	97.7%	96.6%	97.5%	96.0%	96.9%
Combined Ratio	0.9-pts	101.8%	100.9%	101.8%	100.7%	102.4%
Net Unrealized Gain/(Loss)	NM	$215	($75)	$35	$46	$58
Net Cash from Operations	(24.4)%	$349	$462	$508	$282	$290

NM=Not Meaningful

Premium

According to the U.S. Department of Housing and Urban Development Office of Policy Development and Research (HUD PD&R), new home sales were 4.7% higher compared to a year ago while existing home sales declined 2.2% with first-time home buyers making up 33% of all sales transactions. The overall decline in sales can be attributed to stricter lending standards, low sales inventory, and slow growth in income to house prices. Looking ahead, housing starts for the second quarter were down 5.3% for single family homes and up 12.9% for multi-family housing.

U.S. Single Family Housing Market Summary

(in thousands, except for percent)	YoY Chg.	2Q-19	1Q-19	2Q-18
Total Home Sales	(1.5)%	5,949	5,876	6,039
New Home Sales	4.7%	662	669	632
Existing Home Sales*	(2.2)%	5,287	5,207	5,407

*Includes Single Family, Townhomes, Condos, and Co-ops

Source: HUD PD&R

As a result, the title industry's direct premiums written were flat at $6.9 billion for the first half of 2019 and were produced primarily through non-affiliated agency operations (61.5% of total DPW). Nearly half of the direct premiums were concentrated in five states (TX, CA, FL, NY, and PA), representing 48.6% of total DPW.

Profitability

The title industry reported a net operating gain of $464.7 million for the first half of 2019, which represented a 6.8% decline from the same period in 2018. The decline was due to a $69.8 million decline in total operating income (mainly attributed to title premiums earned) to $7.5 billion that surpassed the $35.7 million decline in total operating expenses to $7.0 billion (primarily due to decline in losses, LAE and operating expenses incurred). The combined ratio was flat at 101.8% and was comprised of a 4.1% net loss ratio and a 97.7% expense ratio.

The net operating gain combined with net investment income earned of $202.7 million and net realized gains of $44.3 million resulted in net income of $585.0 million for the first half of 2019.

Capital & Surplus

Industry aggregated policyholders' surplus increased 8.5% to $5.3 billion at June 30, 2019. The increase was driven by net income of $584.9 million and $215.3 million net unrealized capital gains, while $387.4 million in stockholder dividends was the primary offsetting factor.

Cash & Liquidity

The title industry reported net cash from operations of $349.0 million for the first half of 2019 compared to $461.8 million for the same period in 2018. The 24.4% YoY decrease was mainly due to a decline in net premiums collected that led to a $67.0 million decrease in cash inflows to $7.7 billion. Cash outflows increased $45.8 million to $7.3 billion and was mostly related to increased federal and foreign income taxes paid.

The industry's liquidity remained strong at 63.7% at June 30, 2019 as liquid assets increased 4.6% to $8.4 billion, while adjusted liabilities increased 2.1% to $5.2 billion.

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