U.S. Property & Casualty Insurance Industry

Industry Overview

Following moderate underwriting gains last year, the U.S. Property and Casualty Insurance Industry reported an $8.4 billion underwriting gain in 2019 fueled by lower catastrophe losses, moderate premium growth, and a continuing trend of prior-year reserve releases.

Investment performance was consistent with the previous year as the investment yield was flat at 3.20% versus 3.24% in 2018.

Overall, net income increased 7.9% to $62.1 billion compared to $57.6 billion in 2018. The profit, combined with unrealized capital gains of $85.1 billion, resulted in a 14.3% increase in policyholders' surplus to $891.2 billion at December 31, 2019, representing a new all-time high.

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

For the year ended December 31,	YoY Chg	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net Premiums Written	3.2%	641,811	621,786	561,952	537,926	524,006	506,657	486,462	465,743	446,634	432,293
Net Premiums Earned	4.4%	629,671	603,188	549,958	533,236	515,835	497,931	476,792	457,906	442,785	430,556
Net Losses Incurred	3.2%	377,957	366,258	353,954	323,195	296,749	284,934	263,576	283,985	296,241	263,120
Loss Expenses Incurred	6.9%	69,125	64,658	65,218	61,829	60,932	58,706	56,951	56,552	55,730	54,312
Underwriting Expenses	2.6%	172,666	168,228	151,672	148,692	145,753	139,846	136,586	130,809	124,768	122,662
Underwrting Gain (Loss)	189.1%	8,405	2,907	(22,459)	(1,700)	11,453	14,658	20,127	(13,762)	(35,451)	(8,828)
Net Loss Ratio	(0.4) pts	71.0%	71.4%	76.2%	72.2%	69.3%	69.0%	67.2%	74.4%	79.5%	73.7%
Expense Ratio	(0.2) pts	26.9%	27.1%	27.0%	27.6%	27.8%	27.6%	28.1%	28.1%	27.9%	28.4%
Combined Ratio	(0.4) pts	98.7%	99.1%	103.9%	100.5%	97.8%	97.3%	96.0%	103.1%	108.0%	102.8%
1yr Rsrv Devlp/PY PHS	0.8 pts	(0.8%)	(1.6%)	(1.4%)	(0.7%)	(1.2%)	(1.4%)	(2.7%)	(2.2%)	(2.2%)	(2.0%)
Net Invmnt. Inc. Earned	3.3%	55,065	53,287	48,978	45,539	47,228	46,401	46,594	48,041	49,005	47,620
Net Realized Gains (Loss)	2.6%	11,171	10,885	19,833	8,747	10,285	12,006	18,823	9,032	7,790	8,233
Net Invmnt. Gain (Loss)	3.2%	66,236	64,172	68,812	54,286	57,513	58,407	65,417	57,073	56,795	55,853
Investment Yield	(0.04) pts	3.20%	3.24%	3.08%	3.01%	3.18%	3.17%	3.34%	3.61%	3.74%	3.72%
Total Other Income	(16.1%)	1,284	1,530	(4,687)	950	1,475	(2,908)	(580)	2,305	2,382	964
Net Income[1]	7.9%	62,110	57,565	38,717	42,860	56,884	56,439	69,725	36,486	18,292	36,400
Return on Revenue	0.3 pts	8.9%	8.6%	6.3%	7.3%	9.9%	10.1%	12.9%	7.1%	3.7%	7.5%
December 31,	YoY Chg	2018	2018	2017	2016	2015	2014	2013	2012	2011	2010
Policyholders' Surplus[2]	14.3%	891,214	779,921	786,016	734,026	705,948	706,740	686,135	615,809	578,321	587,606
Return on Surplus	0.1 pts	7.4%	7.4%	5.1%	6.0%	8.1%	8.1%	10.7%	6.1%	3.1%	6.5%

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

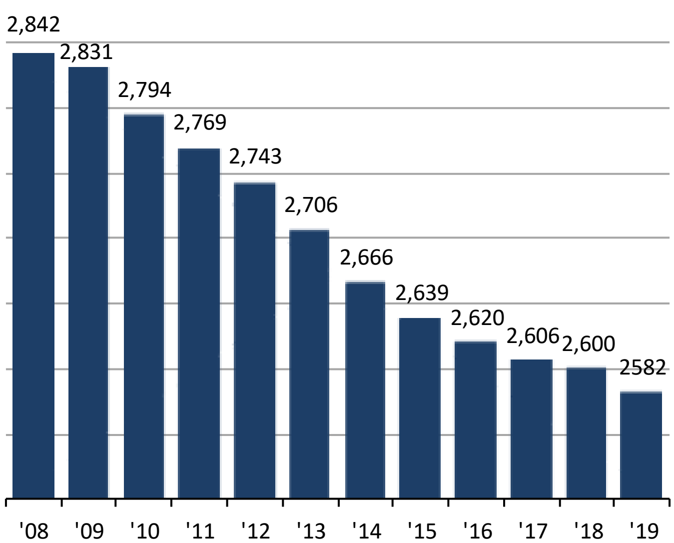
Market Conditions

Soft market conditions are characterized by flat or declining rates, relaxed underwriting standards, abundant capacity and increased competition among insurers. Although soft market conditions have existed in the U.S. property and casualty insurance industry since 2007, the market is beginning to show signs of firming in most lines. This comes as the industry reported record catastrophe losses in 2017 and above average catastrophe losses in 2018. All commercial lines have experienced rate increases for nine consecutive quarters, with the exception of Workers' Compensation, according to The Council of Insurance Agents & Brokers (CIAB) Q4 Market Report. The CIAB report indicated that commercial premium rates increased by an average of 7.5% for all lines in Q4 2019, which included a 10.5% increase in Commercial Auto rates – marking 34 consecutive quarters of rate increases within this line. In 2020, certain commercial liability lines could be impacted by COVID-19.

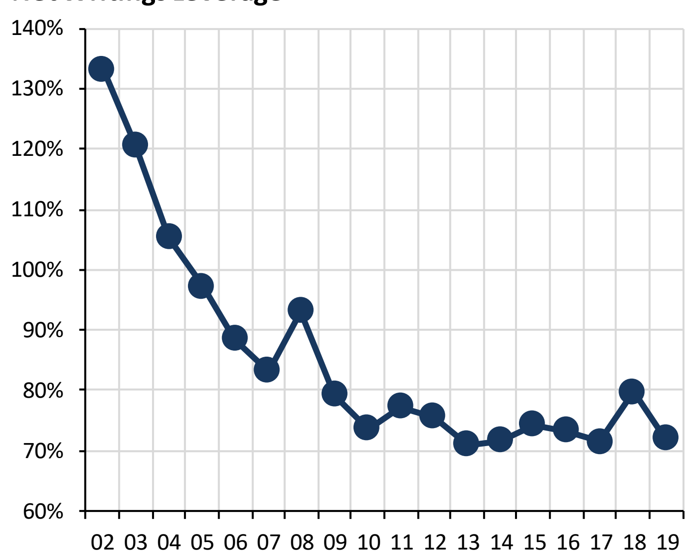
Line of Business	2017				2018				2019			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
All Commercial LOBs	(2.5%)	(2.8%)	(1.3%)	0.3%	1.7%	1.5%	1.6%	2.4%	3.5%	5.2%	6.2%	7.5%
Commercial Auto	5.4%	6.1%	7.3%	7.3%	7.7%	8.2%	7.0%	7.0%	8.8%	8.4%	9.1%	10.5%
Workers' Comp	(1.9%)	(2.7%)	(2.3%)	(2.0%)	(2.0%)	(2.9%)	(2.6%)	(3.3%)	(3.3%)	(2.5%)	(2.7%)	(1.9%)
Commercial Property	(3.1%)	(3.6%)	0.9%	2.4%	3.4%	2.2%	2.9%	2.9%	5.9%	8.5%	8.8%	9.7%
General Liability	(2.6%)	(2.7%)	(0.8%)	0.1%	0.6%	0.8%	0.8%	1.4%	2.0%	3.2%	4.6%	5.8%
Umbrella	(1.1%)	(1.4%)	(0.4%)	0.6%	1.0%	1.5%	1.4%	2.3%	3.3%	5.7%	9.8%	13.6%

Despite the competitive market environment the industry continued its profitability streak with a net profit reported for the 18th consecutive year. For some insurers the long-term organic growth has provided a means to gain market share through mergers and acquisitions (M&A). As seen in the chart below, the number of filers has steadily decreased since 2008 primarily due to M&A activity along with some insurers simply exiting the market altogether. Further, as policyholders' surplus continues to reach new highs, industry capacity has remained overly abundant as shown in the net writing leverage of 72.0%, thus giving insurers the incentive to remain competitive.

No. of P&C Filers



Net Writings Leverage



Writings

Direct premiums written increased 4.9% YoY to $709.8 billion in 2019 and have increased for 39 consecutive quarters over prior-year quarters. All three markets experienced writings growth:

- The Personal Lines market represented 51.9% of total DPW and grew 3.9%
- The Commercial Lines market represented 35.9% of total DPW and grew 5.5%
- The Combined Lines market represented 12.2% of DPW and grew 7.8%

Assumed premiums written increased 5.2% YoY to $567.6 billion, of which 89.7% was comprised of affiliated assumptions. U.S. intercompany pooling agreements comprised 62.9% of all reinsured business, followed by 24.8% affiliated U.S. non-pooled business. Cessions totaled $635.6 billion, representing a 7.2% increase over the prior year, to arrive at net premiums written of $641.8 billion.

Direct Writings & Profitability by State, Territories, Etc.

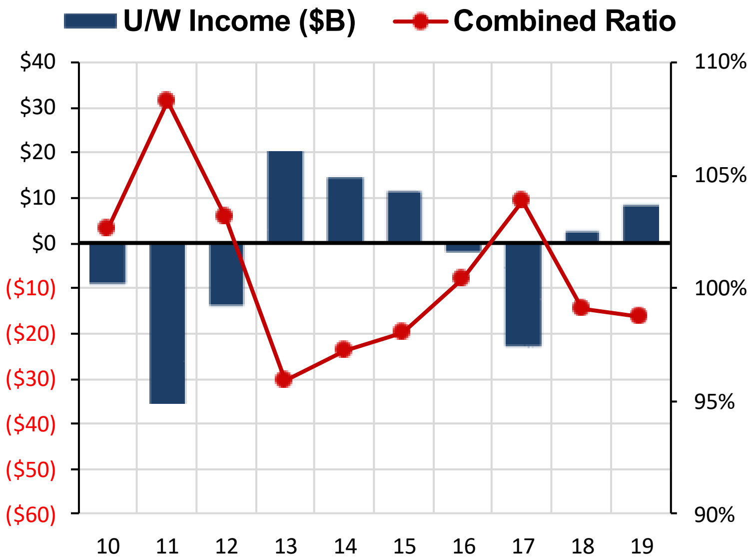
State	Direct Premiums Written			Pure Direct Loss Ratio			Losses Incurred		Premiums Earned	
	YoY Chg	2019	2018	YoY Chg	2019	2018	2019	2018	2019	2018
AL	5.8%	9,457	8,936	(7.2) pts	54.1%	61.3%	5,018	5,404	9,268	8,814
AK	2.9%	1,654	1,607	(11.6) pts	45.6%	57.2%	748	915	1,640	1,598
AR	6.1%	12,402	11,687	(2.8) pts	57.3%	60.1%	6,935	6,867	12,096	11,419
AR	4.3%	5,704	5,467	2.2 pts	63.1%	60.9%	3,547	3,244	5,617	5,323
CA	5.7%	84,953	80,405	(18.7) pts	54.0%	72.6%	44,445	56,968	82,378	78,421
CO	7.2%	14,301	13,343	(23.0) pts	63.6%	86.6%	8,795	11,181	13,829	12,913
CT	3.0%	9,101	8,838	(3.4) pts	55.1%	58.5%	4,955	5,125	9,000	8,763
DE	4.1%	2,903	2,790	4.3 pts	54.7%	50.4%	1,575	1,421	2,881	2,821
DC	3.9%	2,056	1,979	(11.8) pts	37.6%	49.3%	750	934	1,997	1,892
FL	5.1%	56,551	53,829	(6.7) pts	66.7%	73.4%	36,836	38,631	55,240	52,648
GA	6.5%	22,943	21,548	(2.6) pts	63.9%	66.4%	14,294	13,949	22,381	20,992
HI	4.0%	2,701	2,596	1.6 pts	47.1%	45.5%	1,252	1,168	2,659	2,568
ID	8.2%	3,230	2,986	(6.0) pts	56.9%	62.9%	1,771	1,817	3,112	2,891
IL	4.0%	27,098	26,047	8.1 pts	64.8%	56.7%	16,982	14,586	26,204	25,731
IN	3.6%	12,054	11,630	6.0 pts	57.4%	51.3%	6,777	5,853	11,815	11,405
IA	3.3%	6,795	6,578	(14.2) pts	54.3%	68.5%	3,644	4,470	6,709	6,524
KS	4.3%	6,977	6,692	4.7 pts	58.3%	53.7%	4,013	3,504	6,879	6,529
KY	2.8%	8,039	7,822	1.1 pts	58.5%	57.4%	4,647	4,415	7,949	7,693
LA	3.6%	12,382	11,951	2.1 pts	56.2%	54.1%	6,867	6,380	12,214	11,794
ME	4.4%	2,468	2,364	2.2 pts	50.0%	47.8%	1,214	1,116	2,427	2,333
MD	5.0%	12,788	12,176	(3.9) pts	60.4%	64.3%	7,563	7,703	12,523	11,985
MA	5.4%	16,371	15,538	(1.9) pts	50.5%	52.4%	8,037	8,002	15,927	15,271
MI	4.5%	20,862	19,964	(9.5) pts	56.8%	66.4%	11,633	13,032	20,465	19,636
MN	4.7%	12,458	11,901	14.6 pts	69.1%	54.5%	8,435	6,376	12,210	11,696
MS	3.5%	5,590	5,398	3.1 pts	56.8%	53.7%	3,120	2,850	5,495	5,305
MO	5.2%	12,669	12,047	5.5 pts	61.5%	55.9%	7,609	6,605	12,380	11,812
MT	1.5%	2,599	2,560	26.7 pts	82.6%	55.9%	2,123	1,395	2,569	2,494
NE	4.6%	5,244	5,015	16.9 pts	70.8%	53.9%	3,631	2,662	5,129	4,941
NV	8.8%	6,244	5,738	(10.6) pts	63.1%	73.7%	3,822	4,063	6,058	5,514
NH	3.7%	2,593	2,500	(3.4) pts	47.3%	50.7%	1,207	1,258	2,550	2,482
NJ	3.7%	22,932	22,113	0.2 pts	59.7%	59.5%	13,468	12,959	22,577	21,796
NM	6.0%	3,740	3,528	(5.9) pts	60.1%	66.0%	2,202	2,274	3,661	3,444
NY	3.2%	49,912	48,353	2.1 pts	60.7%	58.5%	29,667	27,791	48,898	47,480
NC	5.7%	17,415	16,478	(19.5) pts	57.9%	77.4%	9,825	12,504	16,966	16,148
ND	2.0%	2,616	2,565	24.2 pts	71.9%	47.7%	1,850	1,213	2,573	2,543
OH	3.5%	17,725	17,120	11.4 pts	61.1%	49.7%	10,672	8,360	17,466	16,827
OK	3.0%	8,597	8,345	4.9 pts	54.4%	49.5%	4,610	4,043	8,480	8,174
OR	4.5%	7,729	7,397	8.9 pts	57.6%	48.8%	4,359	3,526	7,565	7,232
PA	3.4%	26,176	25,325	2.9 pts	61.6%	58.7%	15,889	14,590	25,782	24,862
RI	5.9%	2,643	2,495	(5.6) pts	53.9%	59.5%	1,386	1,444	2,572	2,427
SC	4.7%	10,651	10,176	0.4 pts	56.6%	56.3%	5,927	5,609	10,463	9,964
SD	4.8%	2,554	2,436	31.8 pts	88.2%	56.4%	2,227	1,357	2,525	2,405
TN	5.2%	12,529	11,910	0.5 pts	51.1%	50.7%	6,317	5,872	12,351	11,585
TX	5.9%	62,173	58,713	10.6 pts	65.3%	54.7%	39,441	31,186	60,410	56,987
UT	6.8%	5,399	5,054	2.6 pts	57.7%	55.1%	3,024	2,702	5,239	4,901
VT	2.9%	1,505	1,463	0.9 pts	44.6%	43.7%	663	634	1,487	1,453
VA	4.9%	14,904	14,202	(4.7) pts	55.0%	59.7%	8,001	8,302	14,550	13,897
WA	7.5%	13,803	12,846	1.8 pts	57.8%	56.0%	7,733	6,994	13,375	12,483
WV	2.2%	3,164	3,097	(2.9) pts	54.3%	57.2%	1,699	1,757	3,131	3,071
WI	3.1%	11,211	10,875	0.7 pts	57.3%	56.6%	6,328	6,096	11,046	10,775
WY	5.3%	1,280	1,215	1.6 pts	73.3%	71.7%	919	851	1,254	1,187
AS	(73.1%)	0	0	33.0 pts	38.3%	5.3%	0	0	0	0
GU	(59.2%)	149	366	(42.3) pts	18.2%	60.5%	26	217	144	358
PR	(23.2%)	1,633	2,126	(39.2) pts	64.7%	103.9%	1,057	2,027	1,632	1,951
VI	9.3%	175	160	(377.1) pts	13.1%	390.2%	23	578	172	148
MP	(44.3%)	12	22	(111.6) pts	50.6%	162.2%	5	33	10	20
Totals	**4.8%**	**709,877**	**677,341**	**(1.9) pts**	**59.6%**	**61.6%**	**413,514**	**408,389**	**693,252**	**663,067**

Operating Results

Underwriting Operations

Underwriting performance in the last two years benefitted from lower catastrophe losses, moderate premium growth, and prior-year reserve releases that led to back-to-back years of underwriting profits. A net underwriting profit of $8.4 billion was recorded for 2019, a 189.1% improvement compared to a $2.9 billion profit in 2018. The favorable results were reflected in a combined ratio of 98.7% and 99.1% for 2019 and 2018, respectively.

Despite the overall improvements, several commercial lines continued to underperform (discussed on page 5), while underwriting performance improved in the personal lines and combined lines market.



Catastrophe Losses

In 2019, according to Munich Re, worldwide overall losses from natural catastrophes amounted to $150 billion ($52 billion insured) resulting from 820 events compared to $186 billion ($86 billion insured) in 2018. Lower catastrophe losses in the current year was due to a higher share of losses caused by floods, which are often not insured. The past two years were much less severe than 2017, where overall losses were $340 billion ($140 billion insured) stemming from 740 events. There were approximately 9,000 fatalities from natural disasters in 2019 compared with 15,000 and 13,000 in 2018 and 2017, respectively, and well below the average annual fatality rate from natural catastrophes over the last 30 years of 52,000. The years with the highest death tolls driving this fatality rate include 2010 (earthquakes in Haiti), 2008 (cyclone Nargis in Myanmar), 2004 (Indian Ocean earthquake and tsunami), and 1991 (Bangladesh cyclone).

Natural Catastrophes	2019	2018	2017	Average of the last 10 years (2009-2018)	Average of the last 30 years (1989-2018)
Number of events	820	850	740	660	520
Overall losses (US$m)	150,000	186,000	340,000	187,000	145,000
Insured Losses (US$m)	52,000	86,000	140,000	65,000	43,000
Fatalities	9,000	15,000	13,000	37,400	51,600

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Due to fewer major hurricanes (category 3-5) making U.S. landfall in 2019, the U.S. share of global natural catastrophes was lower than the annual average since 1980. U.S. insured losses due to natural disasters totaled $24 billion in 2019, down from $52 billion in 2018 and $78 billion in 2017. The largest 2019 catastrophe events in terms of losses include:

- ***Midwest thunderstorms and flooding:*** Increased snowfall in the upper Midwest led to a strong snow melt, followed by a series of thunderstorms in March and May that triggered severe flooding. There were also slightly more tornadoes than average during the U.S. thunderstorm season. These events caused roughly $24 billion in overall losses and $14 billion in insured losses.
- ***Hurricanes:*** There were 3 major hurricanes in the Atlantic Basin in 2019, close to the 40 year average of 2.7, however, none of which made landfall as a major hurricane. Despite lower severity from hurricane events the frequency of events was high as there were 18 named storms in 2019, exceeding the annual average of 12. The strongest storms remained over the ocean, minimalizing the amount of losses from hurricane events compared to the previous two years. The 2019 storms resulted in overall losses of $3 billion, of which $2 billion were insured.
- ***Wildfires:*** A wet winter made summer drought conditions more tolerable compared to the previous two years resulting in a far less severe wildfire season in California. The number of fires remained high, but were contained in a much smaller area. Overall losses were $1.1 billion with about $0.8 billion insured.

Source: Munich Re, NatCatService (2020)

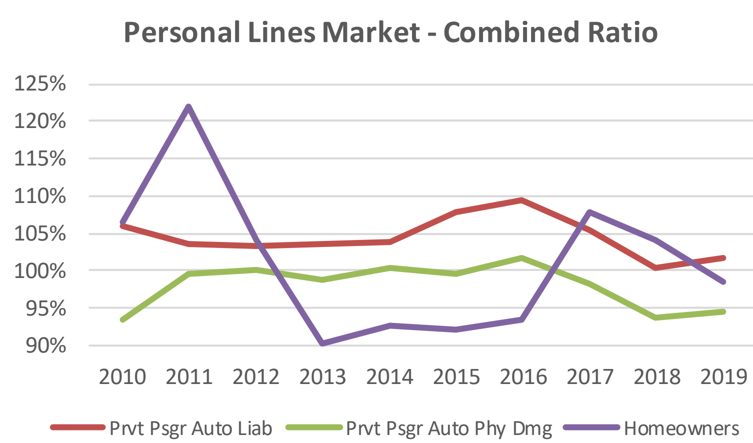
Performance by Segment

Personal Lines — The personal lines market was profitable in back-to-back years for the first time since 2013-2014, due in large part to significantly lower catastrophe losses. The combined ratio was 98.7%, 0.7-points lower than 2018.

Private Passenger Auto liability (21.3% of total DPW)
While the combined ratio for this line increased 1.2 points YoY to 101.6%, it has been on a downward trajectory from a ten year high of 109.5% in 2016. Looking at performance by state, the states with the highest pure direct loss ratio (PDLR) in this line were Florida-77.4%, North Carolina-76.4%, Delaware-73.3%, New York-71.7%, and Georgia-71.6%.

Private Passenger Auto Physical Damage (15.9% of total DPW)
Personal auto physical damage remained stable and has been profitable for three consecutive years (seven out of the last ten years) due in part to more prevalent use of telematics that encourages better driving behavior. The combined ratio slightly worsened 0.9-points YoY to 94.6%.

Homeowners Multiple-Peril (14.7% of total DPW)
As mentioned on page 4, catastrophe losses were lower in 2019 as the U.S. mainland was spared of any major hurricanes making landfall and the wildfire season in California was less severe. Although spring thunderstorms, tornadoes, and flooding were more frequent, the combined ratio reflected lower overall catastrophe losses at 98.6%, a sizeable improvement in comparison to 104.1% in 2018 and 107.8% in 2017.



Commercial Lines — The commercial lines market was unprofitable in 2019 as the combined ratio worsened 3.2-points to 101.3% compared to 98.0% in 2018. As mentioned on page 4, several lines of business continued to underperform, particularly liability coverages due to the prolonged soft market environment (see chart on the following page). Overall, the commercial lines market has been unprofitable in 3 out of the last 4 years. The following lines accounted for the majority of premiums written within the commercial lines market.

Workers' Compensation (7.9% of total DPW)
Underwriting performance within the Workers' Compensation line remained strong, with a 2019 combined ratio of 88.5%, although 2.4-points higher compared to a 2018 combined ratio of 86.2%. Despite the slight YoY deterioration, Workers' Compensation has been profitable since 2015, which has resulted in moderate average rate decreases as noted in the CIAB report discussed on page 2. Some factors that contributed to favorable results in this line included; a robust jobs market; low reported claims frequency; effective use of data and predictive analytics; and enhanced workplace safety measures. Looking ahead, Workers' Compensation may be impacted by COVID-19 as there is an expectation of an increased frequency of claims due to the nature of the coverage and potential for greater occupational illnesses related to the pandemic.

Commercial Lines *(continued)*

Other Liability—Occurrence (7.1% of total DPW)

Other Liability-occurrence insurance protects an insured against legal liability resulting from negligence, carelessness, or failure to act, causing property damage or personal injury to others. Various types of coverages fall within the Other Liability line, include, but is not limited to, professional liability (non-medical), environmental liability, general liability, directors and officers liability, and employers' liability. The combined ratio for this line worsened 4.7-points to 109.8% and has been above the 100% threshold for six consecutive years. Given the wide variety of coverages within this line it is difficult to ascertain specific coverage(s) that contributed to the poor underwriting trend. Looking forward to 2020, underwriting woes are likely to continue as many businesses will face a greater liability exposure due to the COVID-19 epidemic, particularly insurers that tailor to industries such as healthcare (hospitals, health clinics, ambulance, fire department, and senior living), transportation, retail, restaurants, hospitality, and entertainment.

Commercial Multiple Peril (6.2% of total DPW)

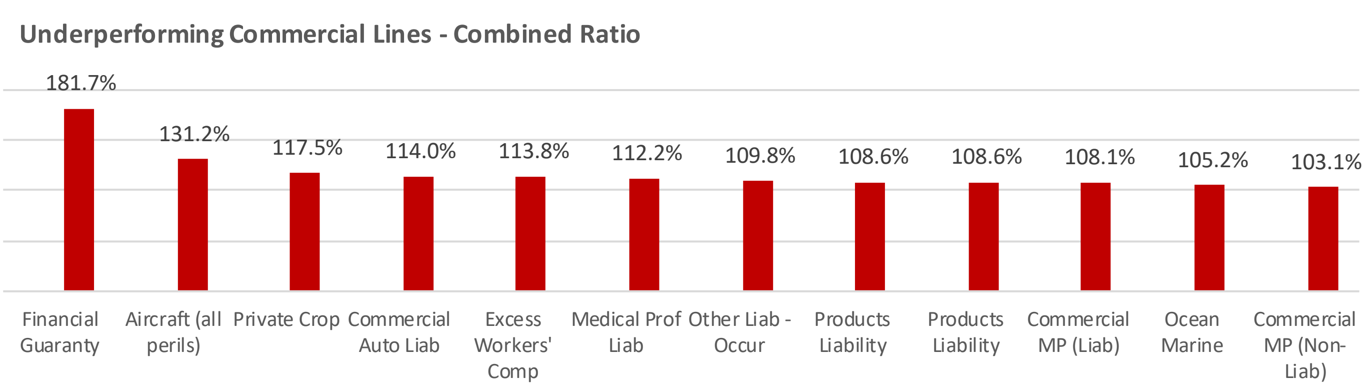
Commercial Multiple Peril consists of two or more coverages protecting businesses from various property and liability risk exposures. This is the most popular type of commercial package insurance policy in the U.S. as it covers a variety of risk exposures including, but not limited to, fire; allied lines; difference in conditions; and various liability coverages. The combined ratio for the non-liability portion improved for the second consecutive year but exceeded the 100% threshold at 103.1%. The combined ratio for the liability portion worsened 4.4-points to 108.1% and has been above the 100% threshold since 2016. Business Interruption, a common endorsement to commercial package policies, protects insured for losses of business income resulting from a direct loss, damage, or destruction of property by a covered peril. Regarding the potential impact from COVID-19, there is tremendous uncertainty regarding the extent of the impact, particularly to business interruption claims due to policy language and common exclusions.

Commercial Auto Liability (4.9% of total DPW)

The combined ratio worsened 2.3-points YoY to 114.0% marking the ninth consecutive year that the combined ratio has exceeded the 100% threshold despite rate increases spanning 34 consecutive quarters, including a 10.5% average increase in the fourth quarter of 2019. According to the Council of Insurance Agents and Brokers Q4/2019 Commercial Property/Casualty Market Index, the notable causes for Commercial Auto's difficulties were increased road congestion, distracted driving, and increased severity of claims due to higher cost of vehicles and larger settlements.

Medical Professional Liability (1.4% of total DPW)

Medical professional liability insurance protects physicians and other health care professionals from liability associated with wrongful practices resulting in bodily injury or death. Since 2014, the medical professional liability line has generated negative underwriting results due to rising loss costs and diminishing prior year reserve takedowns. For the current year, the combined ratio worsened 8.0-points to 112.2%--a 10-year high. Results could continue to worsen as medical professionals may have increased liability exposure related to COVID-19.



Combined Ratio by Lines of Business

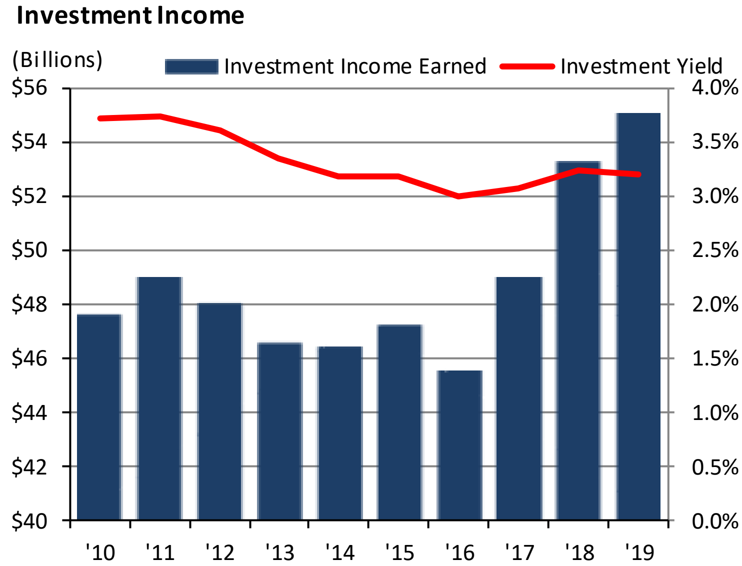
Lines of Business	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Aggregate Write-ins	76.2%	81.1%	41.2%	83.5%	83.7%	125.4%	64.0%	56.3%	75.7%	80.7%
Aircraft (all perils)	131.2%	111.5%	109.2%	113.1%	100.7%	89.1%	99.5%	98.5%	102.6%	94.1%
Allied Lines	105.0%	130.7%	182.0%	96.6%	88.1%	85.4%	85.3%	129.9%	122.3%	92.0%
Boiler and Machinery	72.8%	86.3%	76.5%	78.8%	69.9%	76.1%	72.4%	80.1%	74.8%	71.6%
Burglary and Theft	74.2%	78.1%	49.1%	46.2%	61.4%	59.9%	42.2%	58.6%	61.6%	69.4%
Commercial Auto Liab	114.0%	111.7%	113.5%	113.2%	111.3%	103.6%	107.5%	106.3%	101.1%	97.1%
Commercial Auto Phy Dmg	95.5%	97.0%	104.2%	102.0%	100.9%	103.1%	104.9%	109.1%	112.1%	101.6%
Commercial MP (Liab)	108.1%	103.6%	101.6%	105.6%	99.3%	103.5%	103.0%	94.1%	102.0%	96.1%
Commercial MP (Non-Liab)	103.1%	108.4%	111.8%	99.1%	91.9%	97.1%	94.4%	114.6%	120.0%	103.2%
Credit	84.9%	93.6%	90.8%	92.1%	76.5%	74.7%	74.9%	91.3%	94.3%	127.3%
Credit A & H	86.7%	84.8%	128.3%	120.9%	42.3%	45.2%	45.0%	49.5%	38.3%	87.8%
Earthquake	28.7%	44.6%	43.6%	33.9%	28.5%	34.3%	30.5%	36.7%	57.0%	45.7%
Excess Workers' Comp	113.8%	116.6%	123.6%	109.2%	112.0%	107.4%	69.3%	151.4%	133.9%	51.4%
Farmowners MP	99.3%	97.0%	105.7%	91.1%	89.9%	95.4%	94.0%	99.5%	117.2%	108.2%
Fidelity	90.6%	73.4%	74.0%	78.4%	77.2%	92.7%	92.9%	99.3%	102.0%	96.5%
Financial Guaranty	181.7%	130.5%	320.1%	177.2%	99.2%	91.3%	(3.4%)	181.2%	218.8%	227.3%
Fire	95.8%	110.8%	119.2%	92.3%	85.1%	85.4%	78.5%	86.5%	92.9%	79.9%
Group A & H	97.8%	90.7%	90.5%	98.4%	100.1%	96.9%	99.9%	94.1%	99.2%	96.2%
Homeowners MP	98.6%	104.1%	107.8%	93.4%	92.1%	92.7%	90.3%	104.0%	122.0%	106.6%
Inland Marine	86.5%	86.4%	90.0%	84.0%	83.9%	83.5%	83.8%	96.2%	97.1%	86.5%
International	153.4%	145.3%	130.7%	144.3%	2.0%	116.7%	92.6%	91.5%	97.7%	181.2%
Medical Prof Liab	112.2%	104.1%	101.4%	106.4%	102.3%	104.7%	89.4%	93.3%	88.0%	88.7%
Mortgage Guaranty	32.8%	29.2%	40.4%	49.8%	58.1%	70.2%	98.0%	189.7%	219.1%	199.0%
Multiple Peril Crop	108.6%	85.0%	84.1%	81.7%	99.9%	104.9%	103.3%	104.0%	90.6%	73.9%
Ocean Marine	105.2%	100.2%	110.5%	95.8%	94.7%	91.2%	98.1%	109.2%	100.5%	96.2%
Other A & H	128.0%	149.6%	133.1%	128.6%	132.0%	126.6%	132.5%	133.0%	119.5%	135.8%
Other Liab - Claims-Made	97.6%	91.0%	98.9%	103.4%	98.6%	88.1%	97.4%	100.4%	100.8%	96.6%
Other Liab - Occur	109.8%	105.2%	101.6%	114.9%	103.3%	101.5%	96.4%	104.9%	92.8%	115.1%
Private Crop	117.5%	126.9%	107.5%	122.3%	146.2%	138.8%	NA	NA	NA	NA
Private flood	59.6%	55.0%	186.2%	93.1%	NA	NA	NA	NA	NA	NA
Products Liability	108.6%	122.9%	102.1%	119.8%	130.6%	134.4%	155.2%	102.2%	158.8%	157.3%
Prvt Psgr Auto Liab	101.6%	100.4%	105.5%	109.5%	107.9%	103.8%	103.5%	103.2%	103.6%	105.9%
Prvt Psgr Auto Phy Dmg	94.6%	93.6%	98.2%	101.7%	99.5%	100.3%	98.7%	100.2%	99.5%	93.4%
Reinsurance-Nonproportional	98.1%	109.1%	122.8%	78.6%	72.3%	63.2%	72.9%	79.8%	114.4%	79.5%
Surety	71.3%	70.9%	72.2%	72.4%	73.8%	69.3%	72.7%	76.8%	72.8%	70.7%
Warranty	104.8%	95.4%	90.6%	88.8%	107.9%	93.5%	104.2%	99.5%	97.1%	107.2%
Workers' Comp	88.5%	86.2%	92.2%	95.4%	95.9%	102.6%	98.8%	111.2%	118.4%	118.3%

NA = Not Available

Note: Federal Flood is not shown due to negative combined ratio results

Investment Operations

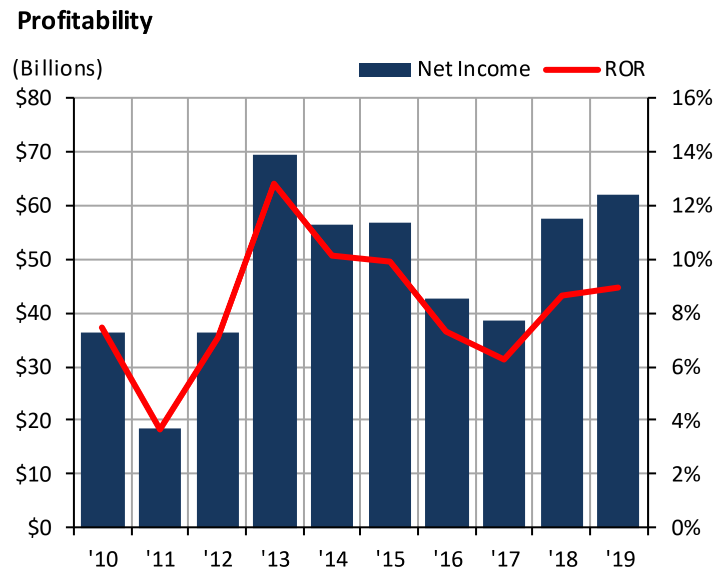
Net investment income was $66.2 billion, 3.2% higher than 2018. Realized capital gains were $11.3 billion, 4.0% higher than 2018, primarily due to gains on unaffiliated bonds of $1.7 billion versus losses of $1.2 billion last year. Net investment income earned increased 3.3% YoY to $55.1 million. The majority of investment income earned was derived from bonds at 53.5% of the total while stocks comprised 24.3%, and other invested assets 13.6%. The industry average investment yield remained relatively unchanged at 3.20%.



Net Income

The industry produced a net profit of $62.1 billion for 2019 compared to $57.6 billion a year ago. The improvement was attributed to the $5.5 billion improvement in underwriting income, combined with stability in investment income. As shown in the chart to the right, 2019 was the second most profitable year out of the last ten years.

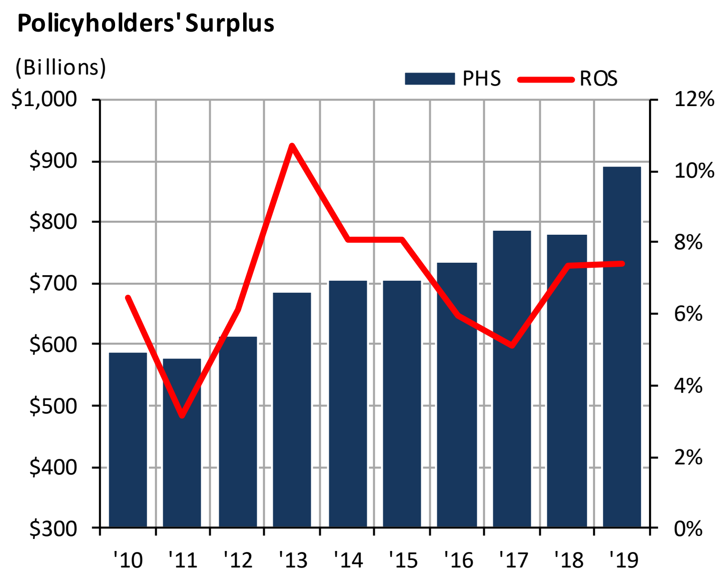
Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was higher at 8.9% versus 8.6% for the prior year marking a consecutive YoY improvement for the first time since 2012-2013.



Capital and Surplus

Policyholders' surplus (adjusted to eliminate stacking) increased 14.3% to $891.2 billion at December 31, 2019. The increase was primarily attributable to unrealized capital gains of $85.1 billion, net income of $62.1 billion, partially offset by $5.3 billion in dividends to stockholders.

Return on surplus—a measure of net income to average policyholders' surplus—was 7.4% for the year, unchanged from the prior year.

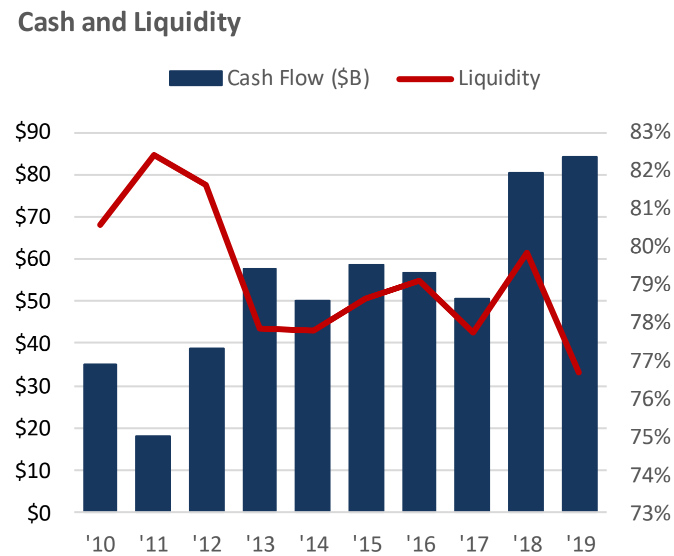


Cash & Liquidity

Net cash provided by operating activities totaled $84.0 billion in 2019, a 4.8% increase compared to $80.3 billion in 2018. The increase reflected underwriting improvement that resulted in a $23.6 billion, or 3.9% increase in premiums collected net of reinsurance to $635.1 billion partially offset by a 4.1% increase in benefit and loss related payments.

Cash & Liquidity (...continued)

The industry's liquidity ratio improved 3.1-points to 76.7% from 79.8% at December 31, 2018. Liquid assets increased 10.7% due to positive cash flow while adjusted liabilities increased at a lesser pace of 6.4%.



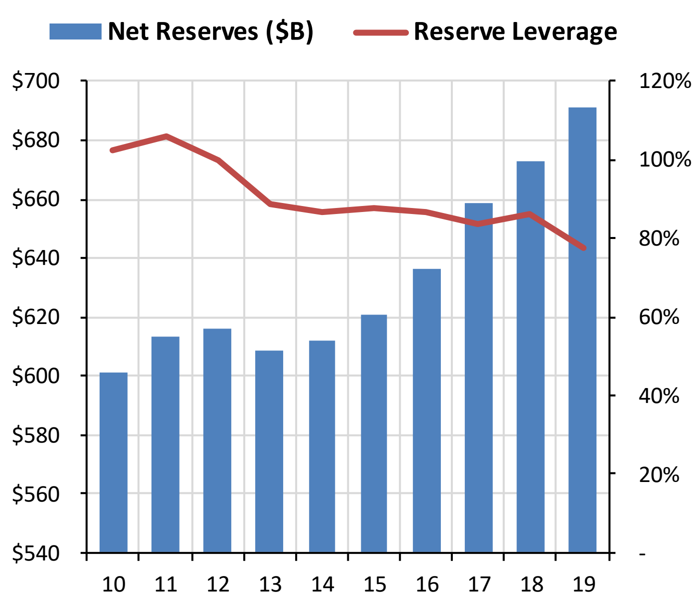
Cash and Invested Assets

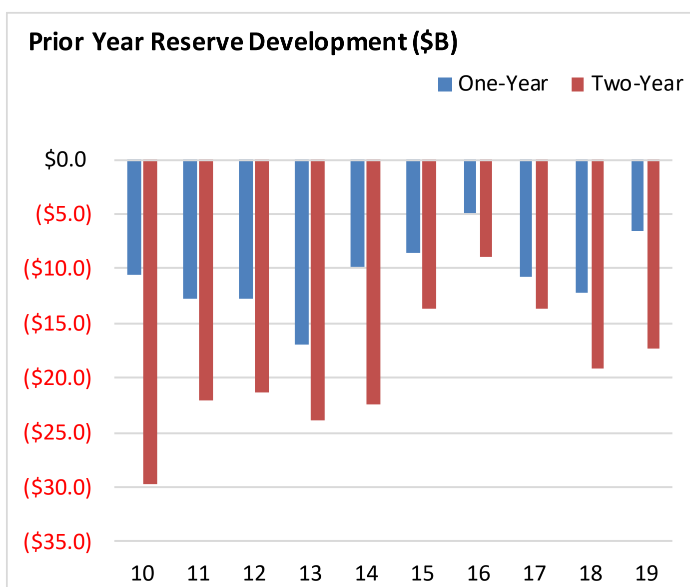
Cash and invested assets totaled $1.7 trillion, representing 83.7% of total net admitted assets, and was mostly comprised of bonds totaling $1.1 trillion (51.2% of cash and invested assets) versus 62.8% of cash and invested assets at December 31, 2008. While total bonds grew 26.5% since the beginning of the financial crisis in 2008, other long-term investments (BA Assets) grew 324.8%, unaffiliated stocks grew 194.9%, and mortgage loans and real estate grew 126.0%, indicating a shift in insurers investment strategy during a prolonged period of a low interest rate environment.

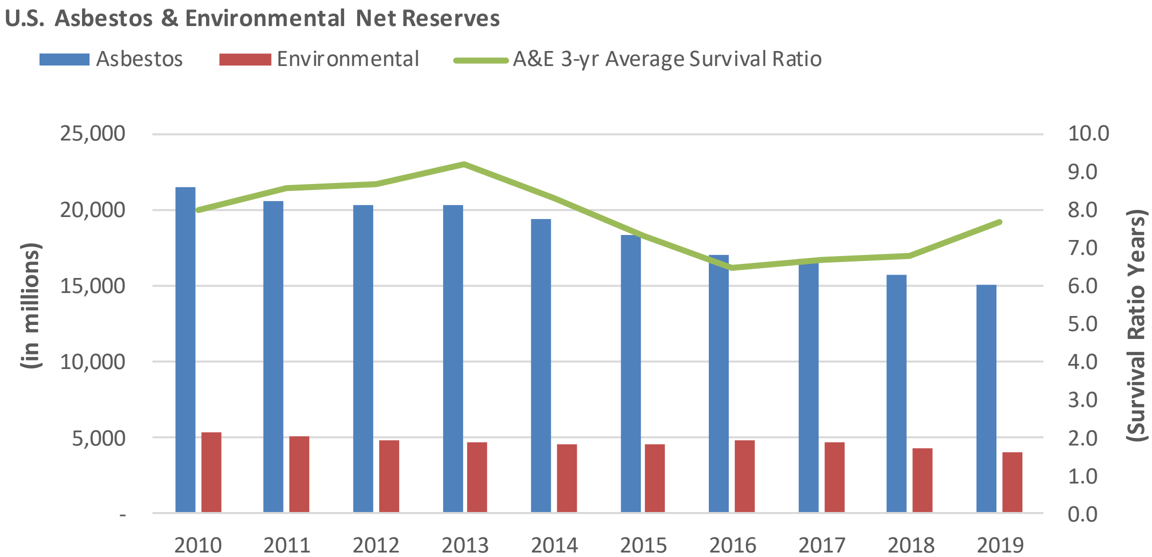
Reserves

Net loss and LAE reserves increased 2.7% to $691.5 billion, of which $570.3 billion was unpaid losses and $121.2 billion unpaid LAE. A long trend of favorable prior year reserve development continued with a one-year redundancy of $6.5 billion and a two-year redundancy of $17.3 billion. In 2014, the trend of prior year reserve releases began to slow, however, a sharp increase occurred in 2017 and 2018 due to a few large one-off transactions, while releases slowed slightly in 2019. Although overall development was favorable, adverse development occurred within the following lines:

- Other Liability—Occurrence totaling $12.3 billion
- Commercial Auto Liability totaling $12.3 billion. Development in Commercial Auto Liability was due to increased accidents and higher payouts attributable to the factors discussed on page 6.
- Specialty Property (Fire, Allied, Inland Marine, Earthquake, Burglary and Theft) totaling $13.9 billion
- Reinsurance Nonprop. Assumed Financial Lines and Warranty totaled $619 thousand and $446 thousand of adverse development, respectively

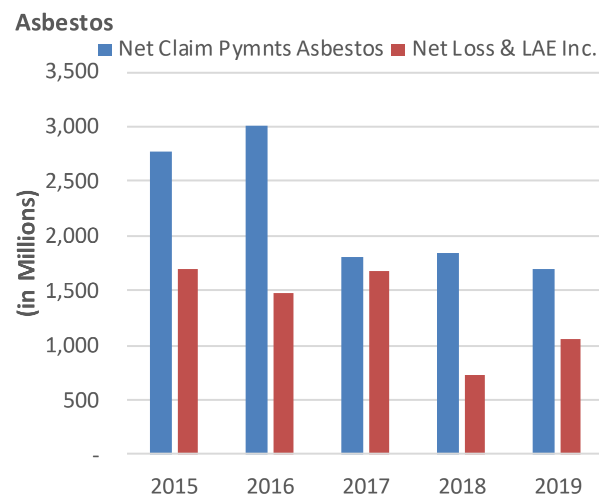






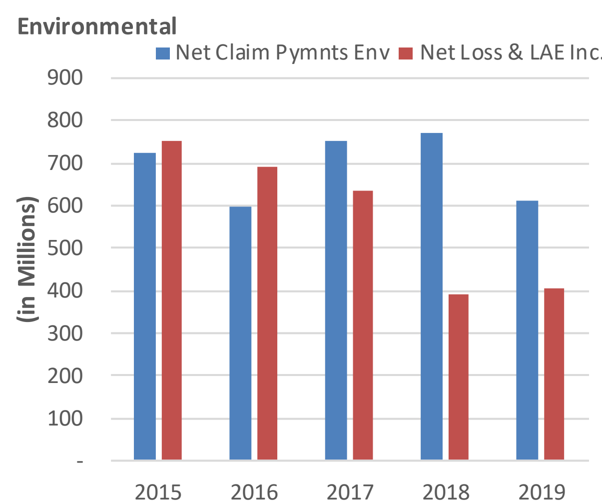
Asbestos and Environmental Reserves

Net Asbestos & Environmental (A&E) loss reserves have steadily declined over the past decade as loss payments have outpaced incurred losses. However, on a gross basis, A&E reserves increased 1.3% to $39.8 billion at December 31, 2019 from $39.3 billion a year ago while net A&E reserves decreased 4.4% to $19.1 billion. Net claim payments totaled $2.3 billion while net incurred losses and LAE totaled $1.5 billion in 2019, a slight increase compared to $1.1 billion last year. The A&E three-year average survival ratio—an estimate of the number of years that current reserves can support recent payout patterns and is calculated by taking the net A&E reserves divided by the three-year average of net claim payments—improved to 7.7 years compared to 6.8 years last year.



Asbestos

Net asbestos-related reserves decreased 4.0% to $15.1 billion at December 31, 2019, the ninth consecutive year asbestos reserves have declined. Although an overall decrease was recorded, net incurred losses increased 44.7% (or $329.0 million) during the year to $1.1 billion. Further, 7 of the top 30 insurers with exposure to asbestos claims reported an increase in net incurred losses as the insurers reassessed ultimate loss obligations. Net claim payments decreased 8.4% (or $155.0 million) to $1.7 billion. As a result, there was a slight improvement in the three-year average survival ratio to 8.5 years from 7.0 years at prior year-end, but remains far below the 10-year high of 10.5 years at December 31, 2013.



Environmental

Net environmental reserves decreased for the second consecutive year and have decreased 23.9% over the past ten years. In the current year, net environmental reserves decreased 5.6% to $4.1 billion at December 31, 2019, as net claim payments totaling $611 million exceeded net incurred losses totaling $404 million. The three-year average survival ratio for environmental-related reserves fell to 5.7 years from 6.1 years last year.

Professional Reinsurance Market

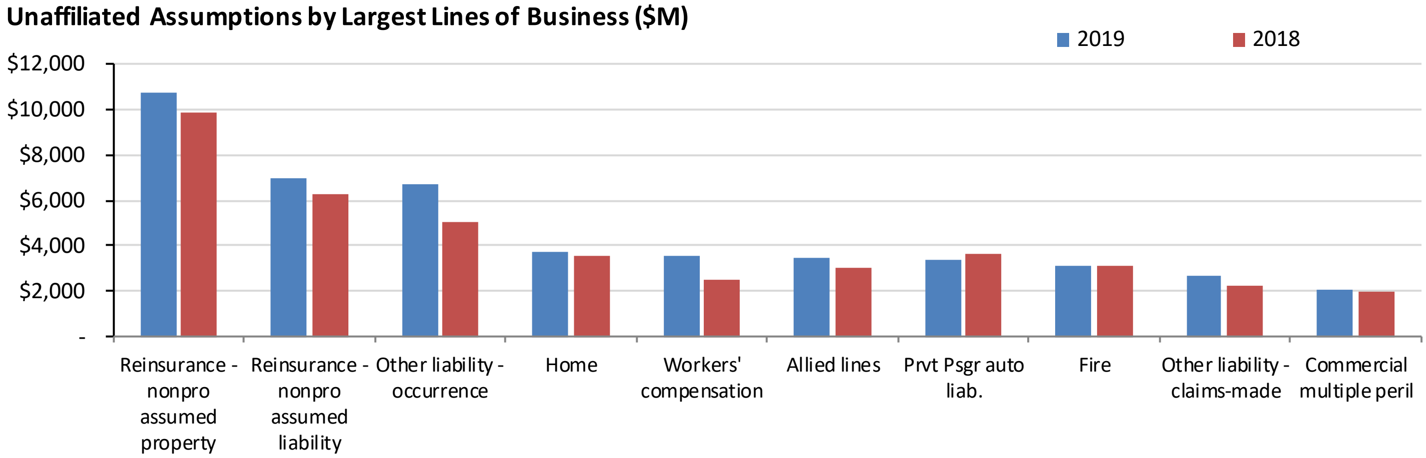
Professional Reinsurers Financial Snapshot

For the year ended December 31,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Unaffiliated APW	44,083	39,369	37,342	36,487	36,432	35,869	34,514	35,883	35,028	30,944
Net Premiums Written	97,665	102,364	78,930	73,687	78,029	86,744	64,407	55,497	51,266	48,508
Net Premiums Earned	95,537	96,362	73,471	72,117	75,213	82,367	60,604	54,927	50,030	48,428
Net Losses Incurred	60,662	64,632	52,949	43,799	42,049	47,613	30,774	36,730	36,334	29,849
Loss Expenses Incurred	9,225	9,165	7,197	6,953	7,815	8,903	6,009	5,916	5,078	6,394
Underwriting Expenses	26,438	27,725	21,196	20,816	21,631	21,801	19,205	15,688	14,092	13,471
Underwrting Gain (Loss)	(765)	(5,065)	(7,867)	528	3,697	4,096	4,619	(3,405)	(5,499)	(1,136)
Net Loss Ratio	73.2%	76.6%	81.9%	70.4%	66.3%	68.6%	60.7%	77.6%	82.8%	74.8%
Expense Ratio	27.1%	27.1%	26.9%	28.2%	27.7%	25.1%	29.8%	28.3%	27.5%	27.8%
Combined Ratio	100.2%	103.7%	108.7%	98.6%	94.1%	93.8%	90.6%	106.0%	110.3%	102.7%
Net Invmnt. Inc. Earned	14,720	17,021	12,587	11,794	13,087	19,503	15,699	13,846	12,620	14,105
Net Realized Gains (Loss)	3,464	2,423	2,875	2,443	2,142	3,219	10,081	521	1,807	3,013
Net Invmnt. Gain (Loss)	18,184	19,443	15,462	14,237	15,229	22,722	25,780	14,368	14,427	17,118
Investment Profit Ratio	19.0%	20.2%	21.0%	19.7%	20.2%	27.6%	42.5%	26.2%	28.8%	35.3%
Net Income	15,324	13,584	1,055	13,283	16,010	21,120	26,625	9,617	8,169	14,124
Return on Revenue	13.5%	11.7%	1.2%	15.4%	17.7%	20.1%	30.8%	13.9%	12.7%	21.5%

(in millions, except for percent)

As previously discussed, the U.S. Property & Casualty industry relies heavily on reinsurance, particularly affiliated reinsurance. Assumed premiums written totaled $571.7 billion in 2019, of which $513.4 billion was affiliated and $58.3 billion was unaffiliated. Regarding the unaffiliated assumptions, $44.1 billion, or 75% of the total was ceded to 26 reinsurers that collectively comprise the professional reinsurance market. As seen in the table above, operating results for the professional reinsurance market improved YoY as U.S. insured catastrophe losses were lower as discussed on page 4. The underwriting loss was $(765) million in 2019 compared to $(5.1) billion in 2018. The combined ratio improved 3.5-points to 100.2% and net income was 12.8% higher at $15.3 billion. Return on revenue was 13.5%, a 1.8-point improvement compared to 11.7% in 2018, and a significant improvement compared to 1.2% in 2017, a record year for natural catastrophes. The chart below shows unaffiliated assumptions for the top lines of business.

Unaffiliated Assumptions by Largest Lines of Business ($M)



Special Report on U.S. P&C Insurance Exposure to COVID-19

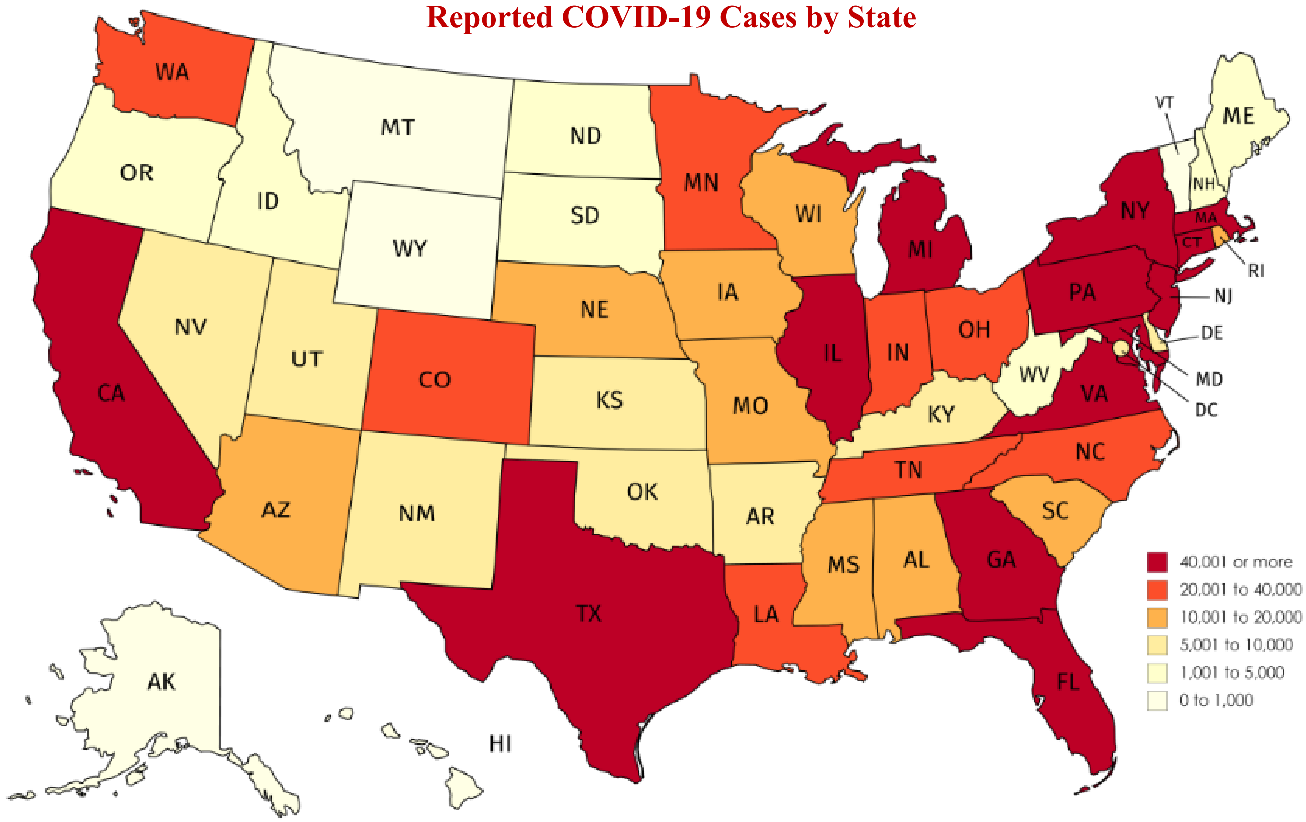
Overview

On March 11, 2020, the coronavirus (COVID-19) outbreak was declared a global pandemic by the World Health Organization. A week later, the virus had spread to all 50 states and the total number of confirmed cases in the U.S. rose quickly thereafter. As a result of the virus, property/casualty insurers are exposed to increased operating and investment risks through a variety of factors such as: potential claims spikes, reduced premiums earned, and adverse effects on investments due to an economic slowdown. While the extent of the impact is largely unknown at this time as the pandemic is still evolving, this report will discuss the potential operating and investment risks to the property/casualty industry.

U.S. COVID-19 Trend as of May 28, 2020

Confirmed Cases:	New Cases:	Reported Deaths:	New Deaths:
1,698,523	**19,680**	**100,446**	**1,415**

Reported COVID-19 Cases by State



Pricing/Underwriting Risk

The following focuses on the property/casualty lines of businesses with the highest underwriting risk exposure to COVID-19, primarily workers' compensation, other liability, trade credit, and medical professional liability. Any of these lines are faced with potential profitability concerns as premium and investment income are expected to decline while claims may rise due to COVID-19.

Workers' Compensation

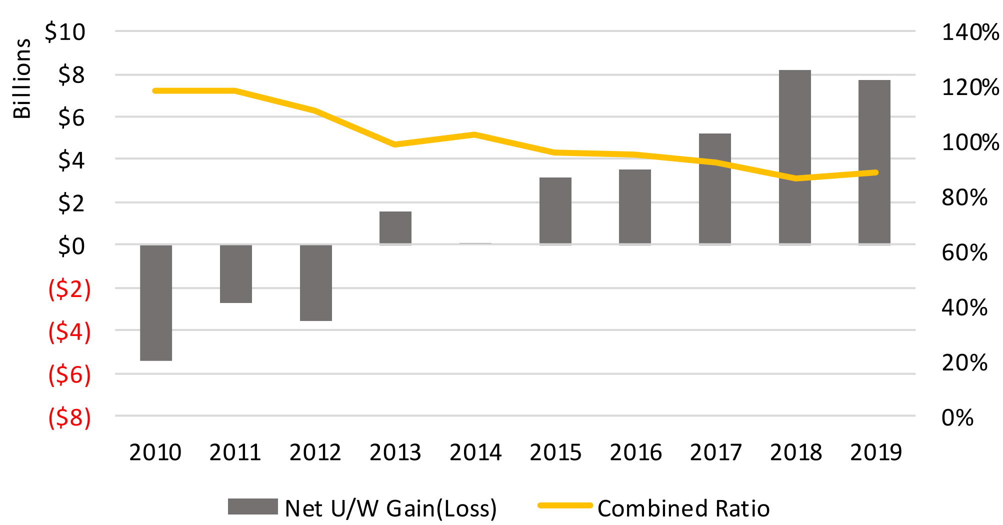
Workers' compensation insurance covers work-related injury or illness sustained on business premises or due to business operations. Workers' compensation has been identified as one of the lines of business with the highest exposure to COVID-19 claims due to the nature of the coverage and potential for greater occupational illnesses directly related to COVID-19, particularly for "essential businesses."

Typically, workers' compensation policies only provide coverage to workers that can prove an illness was contracted on the job and only to diseases that are defined as occupational (i.e., disease developed due to exposure in the workplace). However, many states have eased rules for benefit payouts related to COVID-19. Specifically, instead of healthcare workers and first responders proving their infection of COVID-19 occurred in the course of employment, it is presumed that the contraction of the virus occurred as a direct result of the job. In addition, several states have, or are considering expanding the COVID-19 presumption beyond first responders and health care workers. This could provide coverage to essential workers engaged in front-line occupations such as, grocery, food production and delivery, pharmacy, postal service, day care workers, among others.

In addition to COVID-19 employee illness exposure, other factors that could potentially disrupt the workers' compensation industry include, but is not limited to the following:

- Lower premiums earned due to a reduced workforce, resulting in return premiums;
- Potential for increased workplace injuries (essential businesses) due to overexertion, reduced oversight and training in the work environment, and forgotten loss preventions practices from extended furloughs;
- Growing unemployment rates could result in an uptick of claims as unemployed workers seek to offset lost income with workers' compensation benefits; and
- Increased duration in workers' compensation benefits as treatments are delayed due to the health care industry prioritizing COVID-19 care.

Underwriting Results - Workers' Compensation

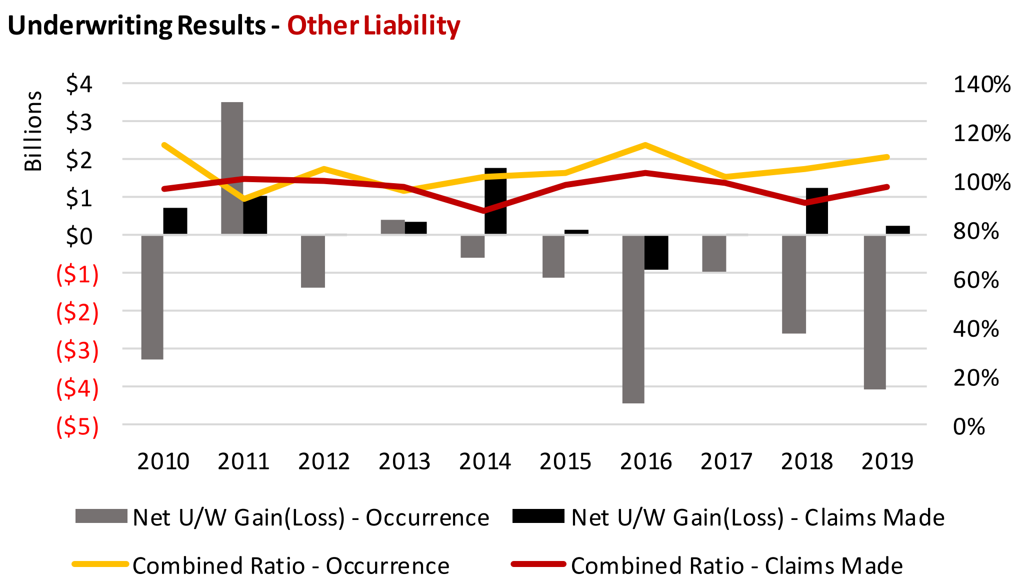


Prior to COVID-19, the workers' compensation market generated favorable underwriting results since 2013. After underwriting profits hit a 10-year high in 2018 of $8.2 billion, it declined 5.6% in 2019 to $7.8 billion. The downturn came as net premiums earned were lower, the result of rate reductions across many states. Partly offsetting the reduced net premiums earned was lower aggregate net loss and LAE incurred and lower underwriting expenses. The combined ratio was 88.5%, comprised of a 58.7% net loss ratio, 25.7% expense ratio and a 4.1% policyholder dividend ratio.

From a geographic standpoint, only a few states experienced a slightly worse pure direct loss ratio (PDLR) within the workers' compensation line in 2019: Idaho (73%), Maine (65%), Kentucky (62%) and Massachusetts (60%). Looking ahead to 2020, the number of states with a deterioration in PDLRs could sharply increase due to COVID-related claims.

Other Liability

Other liability coverages, including Directors & Officers liability, have the potential to see increased claims activity as a result of COVID-19. Examples include shareholder lawsuits over failure of directors and officers to prepare and act appropriately; liability arising from cyber security and privacy breaches associated with remote workers; and liability for businesses due to direct exposure of employees and customers to the virus. Property/casualty insurers that focus writing in industries such as healthcare (hospitals, health clinics, ambulance and fire department, senior living), transportation, retail, restaurants, hospitality, and entertainment will likely face the greatest exposure.



There are two different types of other liability policies: occurrences and claims-made. An occurrence policy provides coverage for incidents that happen during the policy period, regardless of when a claim is reported. A claims-made policy only provides coverage for incidents that are reported during the policy period. For 2019, occurrence policies accounted for 63.8% of total other liability net written premiums and claims-made policies accounted for 36.2%. As seen in the chart above, over the last 10 years, claims-made policies have typically performed better than occurrence policies.

With respect to the other liability—occurrence line, the underwriting performance has been poor in 8 out of last 10 years. In 2019, the underwriting loss totaled $4.1 billion and was 57.8% worse than year prior. The deterioration was largely due to an aggregate 14.0% rise in net losses and LAE incurred to $29.4 billion that outpaced a 6.8% rise in net premiums earned to $36.9 billion. The poor underwriting results were further reflected in the combined ratio which worsened 4.7-pts to 109.9%. The combined ratio was comprised of net loss ratio of 79.7% and expense ratio of 29.9%.

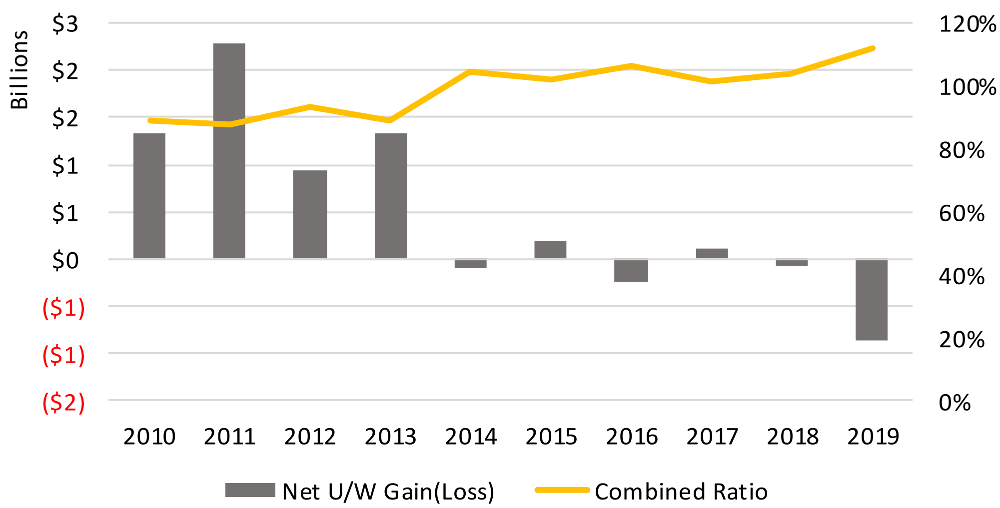
As shown above the underwriting performance for other liability—claims-made has fluctuated significantly over past 10 years. Although the underwriting performance was favorable in 2019 with a profit of $227 million, it was significantly less than the prior year profit of $1.2 million. The downturn was mainly due to a 20.0% rise in net losses and LAE incurred to $10.8 billion that outpaced 8.0% rise in net premiums earned to $21.0 billion. The combined ratio worsened 6.8-pts to 97.8% and was comprised of a 68.5% net loss ratio and a 29.1% expense ratio.

In 2019, the PDLR for other liability was poor in nine states, with Delaware (104%), Nevada (92%), Georgia (88%), South Carolina (87%), New York (75%) and Illinois (74%) reporting the highest ratios. Of these states, it was noted New York, Georgia, Illinois were among the states to report the highest amount of reported COVID cases which may result in further deterioration in 2020.

Medical Professional Liability

Medical professional liability insurance typically covers physicians and other health care professionals for liabilities associated with wrongful practices resulting in bodily injury. There is potential for increased claims activity as COVID-19 is vastly spreading across the country and overwhelming resources, which may impact medical professionals ability to provide effective care. Potential risk exposures include issues relating to the timeliness of testing and treatment, appropriateness of quarantine practices, and failure to timely diagnose and treat non-pandemic ailments.

Underwriting Results - Medical Professional Liability



Since 2014, the medical professional liability line has experienced rising loss costs and diminishing reserving redundancies due to increased claims severity and frequency that has contributed to negative underwriting results. As such, the medical professional liability writers enter the pandemic in the worst financial position in over a decade. The current year underwriting loss totaled $864 million compared to an underwriting loss of $81 thousand for the prior year. The deterioration was driven by a 15.8% increase in net losses incurred to $4.7 billion and a 9.3% rise in LAE incurred to $2.5 billion that outpaced a 1.3% rise in premiums earned to $8.5 billion. This was further reflected in a 9.0-point increase in the net loss ratio to 84.3%. The expense ratio and policyholder dividend ratios were relatively flat at 25.4% and 2.5%, respectively. Overall, the combined ratio was 112.2% for 2019 compared to 104.1% in 2018.

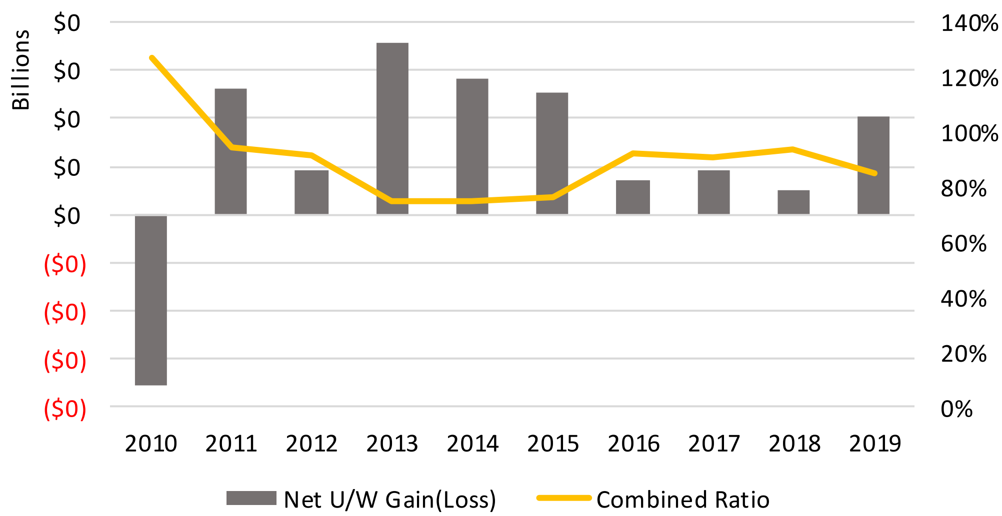
In 2019, the PDLR for medical professional liability was poor in 15 states, including Connecticut, Vermont, and New Mexico with ratios above 100%. Underwriting woes are likely to continue across certain states in 2020, particularly states with the highest number of confirmed COVID-19 cases.

Trade Credit

Trade Credit insurance protects businesses from losses resulting from a customer's insolvency or nonpayment of debts owed to them for the goods or services provided in the normal course of their business. COVID-19 has had a profound effect on the economy and global trade as many businesses have shutdown or significantly reduced normal business activity, which is expected to worsen cash flows and profit margins. As a result, increased insolvencies and/or payment defaults are likely to occur, which in turn could result in losses for insurers.

Similar to workers' compensation, trade credit has generated underwriting profits to insurers for the last nine consecutive years. The current year underwriting profit totaled $203 million and was 76.0% higher than the prior year underwriting profit of $49 million. The improvement was largely driven by a stronger economy. The 2019 combined ratio was 84.9%, comprised of a 47.2% net loss ratio and 37.7% expense ratio.

Underwriting Results - Trade Credit



Other Lines

The following addresses other lines of business with the potential to be significantly impacted by COVID-19 claims and premium reduction. The risk exposures are detailed below, however, the underwriting results are not discussed as these coverages cannot be quantified from the data reported to the NAIC.

Business Interruption

Business interruption insurance coverage protects business owners against losses sustained due to a period of suspended operations. Coverage provides payment for the loss of revenue that would have been earned if there was no suspension of operations, which typically requires physical loss to property and the policy does not contain a specific exclusion for viral infections (i.e., COVID-19). Business interruption coverage can be written as a stand-alone policy or a packaged policy that is typically reported under the commercial multiple peril line of business.

As of April 29, 2020, seven states (Louisiana, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, and South Carolina) have introduced legislation to require business interruption coverage for businesses that suspended operations due to COVID-19, depending on certain circumstances and policy language included in the bills. Given the nature and extent of business disruptions and closures associated with COVID-19 and legislation being considered, there is potential for significant claims activity in this line.

Travel and Event Cancellations

Given the unpredicted numbers of event cancellations and travel restrictions due stay-at-home orders across the country, it is anticipated that a significant amount claims will be made for these coverages. A standard travel insurance policy covers trip cancellation, travel medical and major medical, emergency medical evacuation, and accidental death and dismemberment. The "cancellation and interruption" coverage typically covers trip cancellation if the policyholder is prevented from taking the trip for a reason covered by the policy.

Event cancellation policies provides coverage for financial loss due to the cancellation or postponement of a specific event due to weather or other unexpected cause beyond the control of the insured.

Travel coverage and event cancellation are reported within the inland marine line. These types of coverages are customized forms of insurance and policy language can vary greatly.

Non-Standard Auto

Auto insurers may see a significant decrease in claim frequency due to fewer vehicles on the road, however, there have been signs of an increase in claim severity as fewer vehicles on the road has resulted in excessive speeding and more erratic driving. This trend has a greater probability to impact non-standard auto writers that cover policyholders with poor driving records. In addition, auto writers have a higher potential risk to be impacted by declines in premiums written due to increased unemployment rates and returned premiums.

Credit and Market Risk

Property/casualty insurers investment portfolio is faced with several credit and market risks due to of the impact COVID-19 has had on the economy. While the longevity and extent of the impact of COVID-19 to the capital markets is unknown at this time, there has been significant volatility seen so far in 2020. The following discusses the more significant risk for the property/casualty insurers.

Non-Investment Grade Bonds

Significant credit quality deterioration is expected from many corporations as COVID-19 threatens a global recession. Corporate sectors that are most vulnerable include hotel and gaming, automotive, transportation, retail, travel and leisure, media and entertainment, and oil and gas. The property/casualty exposure to non-investment bonds totaled $49.8 billion at year-end 2019, representing 4.3% of total bonds held and 5.6% of adjusted policyholders' surplus.

Distribution of Bonds by Designation

	BACV	% of Total Bonds
NAIC 1	934,667	80.1%
NAIC 2	183,089	15.7%
NAIC 3	24,392	2.1%
NAIC 4	19,689	1.7%
NAIC 5	4,026	0.3%
NAIC 6	1,724	0.1%
Total Bonds	1,167,587	100.0%

($ in millions, except for percent)

Municipal Bond (CR)

The economic consequences resulting from COVID-19 could potentially impact municipal bond issuers' ability to pay interest and/or principal on time and in full. Municipal bonds that derive revenue from discretionary economic activity (airports, hotels, convention centers, stadiums etc.) are most at risk. Other issuers that are at risk for disrupted revenue steams include: education, healthcare, metropolitan districts, nursing homes, tax revenue, and transportation. According to the NAIC's Capital Market Bureau (CMB), municipal bonds tied to these at risk revenue sectors totaled $71 billion at year-end 2019 for property/casualty insurers and represented 26.1% of total municipal bond holdings. Overall, municipal bonds accounted for 12.7% or $272.0 billion of property/casualty's total cash and invested assets at year-end 2019.

More information regarding this risk exposure can be found in the NAIC's Capital Market Bureau's report "The Potential Impact of COVID-19 to Municipal Bonds Held By Insurers."

Unaffiliated Common Stock

Since the emergence of COVID-19, the U.S. stock market has experienced significant volatility, which resulted in almost a 25% drop in market value of the U.S. property/casualty unaffiliated publicly traded common stock portfolio as of March 31, 2020 per the CMB. Prolonged market volatility could particularly hamper the property/casualty industry as it has a higher relative equity exposure compared to other industry types. Per the CMB's latest special report (linked on the next page), the property/casualty industry accounted for 89.4% of the total unaffiliated common stocks exposure at $370.2 billion (20.6% of property/casualty total net admitted assets).

More information regarding this risk exposure can be found in the NAIC's Capital Market Bureau's report "U.S. Insurer's Exposure to Unaffiliated Common Stock at Year-End 2019—Volatility Prevails."

Low Interest Rate Environment

The property/casualty industry has struggled to generate strong yields from investments given the relatively low level of interest seen in recent years. Although the Federal Reserve Bank had begun to raise rates in 2015, as a result of COVID-19's impact on the economy, it has cut rates once again. As of March 15, 2020, the federal funds rate was between 0% and 0.25% compared to a range of 1.75%-2% at the start of the pandemic. This puts the industry at risk for lower future investment income as maturing bonds are reinvested into lower yielding bonds or invested in more risky investments to maintain or increase yield. This risk is compounded by existing investments in lower yielding bonds from the last financial crisis nearly a decade ago. As shown in the Maturity Distribution table, 55.8% of the bonds held at year-end 2019 mature in 5 years of less.

Maturity Distribution of Bonds

	BACV	% of Total
1 yr or less	180,250	15.4%
Over 1 yr thru 5 yr	471,377	40.4%
Over 5 yr thru 10 yr	376,098	32.2%
Over 10 yr thru 20 yr	88,947	7.6%
Over 20 yr	48,100	4.1%
No Maturity Date	2,814	0.2%
Total	1,167,587	100.0%

($ in millions, except for percent)

Title Industry Overview

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

For the year ended December 31,	YoY Chg	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net Premiums Written	6.9%	$15,752	$14,731	$14,617	$14,133	$12,964	$11,156	$12,569	$11,246	$9,249	$9,438
Title Premiums Earned	6.3%	$15,599	$14,678	$14,461	$13,976	$12,787	$11,389	$12,490	$11,233	$9,364	$9,403
Loss & LAE Incurred	(6.0%)	$605	$644	$629	$687	$672	$742	$825	$851	$1,102	$1,105
Operating Exp. Incurred	6.7%	$15,090	$14,137	$14,089	$13,357	$12,163	$10,659	$11,919	$10,881	$9,300	$9,597
Net Operating Gain/(Loss)	11.0%	$1,224	$1,103	$885	$871	$831	$799	$686	$498	($22)	($214)
Net Loss Ratio	(0.5) pts	3.9%	4.4%	4.3%	4.9%	5.3%	6.5%	6.6%	7.6%	11.8%	11.8%
Expense Ratio	(0.4) pts	95.6%	96.0%	96.4%	94.6%	93.9%	95.7%	94.8%	96.7%	100.9%	101.7%
Combined Ratio	(0.9) pts	99.5%	100.4%	100.8%	99.5%	99.1%	102.2%	101.5%	104.3%	112.7%	113.4%
Net Invmnt. Inc. Earned	21.0%	$435	$360	$348	$276	$326	$261	$274	$321	$346	$334
Net Realized Gains (Loss)	NM	$75	$(75)	$142	$162	$9	$1	$26	$36	$34	($80)
Net Invmnt. Gain (Loss)	78.8%	$510	$285	$489	$437	$336	$262	$299	$356	$380	$254
Net Income	13.1%	$1,391	$1,230	$1,016	$961	$871	$855	$769	$719	$309	$31
Net Cash From Ops	8.3%	$1,560	$1,441	$1,193	$1,081	$1,039	$698	$706	$844	$167	$202
Liquidity Ratio	2.0 pts	68.9%	66.9%	67.9%	70.6%	70.4%	73.3%	76.1%	81.7%	96.3%	98.3%

December 31,	YoY Chg	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Policyholders' Surplus	15.4%	$5,664	$4,909	$4,818	$4,800	$4,357	$4,251	$4,122	$3,842	$2,950	$2,984

Premium

Title industry premiums are written almost entirely on a direct basis through direct operations or agency operations, with the majority being non-affiliated agencies representing 61.8% of total direct premiums written. Overall, a 6.9% YoY increase to $15.8 billion was reported for the title industry's direct premiums written in 2019 due to a rise in refinances and increased commercial business transactions along with economic fluctuations.

The top five states (TX, CA, FL, NY, and PA) represented nearly half of direct premiums with 47.5% of total direct premiums written. With a nominal amount of reinsurance utilization in the industry, net premiums written totaled $15.8 billion in 2019, a 6.9% YoY increase. Net retention was flat at 99.5%. Net writings leverage improved 27.6 percentage points to 278.1%.

Looking ahead to 2020, according to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development (HUD) March 2020 statistics, new home sales dropped 9.5% compared to March 2019. The HUD April update noted that the national housing market declined overall largely due to the recent COVID-19 from social distancing and economic tightening, which slowed down purchasing of new homes, sales of previously owned homes, and single-family home construction while mortgage interest rates reached a new all-time low in late April 2020.

Profitability

For the eighth consecutive year, the title industry reported a net operating gain, that totaled $1.2 billion in 2019 compared to $1.1 billion in 2018. A 6.3% increase in title insurance premiums earned to $15.6 drove the overall 6.5% increase in total operating income to $16.9 million while total operating expenses increased at a slower rate of 6.2%. The combined ratio was 99.5%, a slight improvement to the prior year ratio of 100.4% and was comprised of a 3.9% net loss ratio and a 95.6% expense ratio.

A net investment gain of $509.5 million was reported, 78.8% higher YoY compared to $285.0 million in 2018 mainly due to a $150.0 million increase in net realized capital gains to $74.6 million while net investment income earned increased only $75.0 million to $434.9 million.

Ultimately, net income of $1.4 billion was reported, representing a 13.1% (or $160.8 million) YoY improvement compared to net income of $1.2 billion in 2018.

Capital & Surplus

The upward trend in the title industry's policyholders' surplus continued as surplus increased 15.4% to $5.7 billion at December 31, 2019. The increase was primarily attributable to net income of $1.4 billion and $345.1 million in net unrealized capital gains, partially offset by dividends paid to stockholders of $1.0 billion. Return on surplus was flat at 26.3% for 2019, yet improved 9.7 percentage points from 2015.but remained strong at 26.3%

Cash & Liquidity

The improved operating results contributed to an 8.3% increase in net cash from operations to $1.6 billion in 2019 compared to $1.4 billion in 2018. The current year improvement was seen in a 6.6% rise in premiums collected net of reinsurance and a 9.4% rise in miscellaneous income that led to a 7.0% increase in cash inflows to $17.5 billion. Cash outflows also increased at nearly the same pace with a 6.8% increase to $15.9 billion mainly due to a 6.4% increase in commissions and expenses paid and a 38.2% rise in federal and foreign income taxes paid.

Net cash used by investment activities totaled $169.8 million, representing a 20.5% increase over the prior year as insurers acquired more investment than sold in the last couple years. Net cash used by financing activities totaled $1.1 billion, mainly due to increased dividends to stockholders.

The industry's liquidity ratio remained stable at 68.9%, reflecting a 2.0 percentage point deterioration since the prior year end as adjusted liabilities increased 5.2% to $5.7 billion while liquid assets only increased 2.1% to $8.3 billion.

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