U.S. Property & Casualty and Title Insurance Industries

Property & Casualty Industry Overview

The U.S. property and casualty insurance industry experienced significant pressure on operating results in 2017, primarily due to the following:

- Record Catastrophe Losses
- Soft Market Cycle in Most Lines
- Continued Trend of Underperforming Auto

As a result, the industry posted a net underwriting loss totaling $22.3 billion for the year compared to a $1.7 billion underwriting loss last year. However, favorably investment profits were sharply higher at $68.8 billion, which eliminated all of the underwriting loss and contributed to a net profit of $38.7 billion. The profit, along with unrealized capital gains, contributed to a 7.0% increase in policyholders' surplus to a new record high of $785.6 billion.

Inside the Report — **Page No.**

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

For the year ended December 31,	YoY Chg	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net Premiums Written	4.3%	561,302	537,926	524,006	506,657	486,462	465,743	446,634	432,293	428,349	446,600
Net Premiums Earned	3.0%	549,306	533,236	515,835	497,931	476,792	457,906	442,785	430,556	432,662	450,464
Net Losses Incurred	9.4%	353,515	323,195	296,749	284,934	263,576	283,985	296,241	263,120	259,117	295,138
Loss Expenses Incurred	5.3%	65,126	61,829	60,932	58,706	56,951	56,552	55,730	54,312	54,268	53,597
Underwriting Expenses	1.8%	151,395	148,694	145,753	139,846	136,586	130,809	124,768	122,662	120,673	122,724
Underwrting Gain (Loss)	(1,211.2%)	(22,322)	(1,702)	11,453	14,658	20,127	(13,762)	(35,451)	(8,828)	947	(19,599)
Net Loss Ratio	4.0 pts	76.2%	72.2%	69.3%	69.0%	67.2%	74.4%	79.5%	73.7%	72.4%	77.4%
Expense Ratio	(0.7) pts	27.0%	27.6%	27.8%	27.6%	28.1%	28.1%	27.9%	28.4%	28.2%	27.5%
Combined Ratio	3.4 pts	103.8%	100.5%	97.8%	97.3%	96.0%	103.1%	108.0%	102.8%	101.2%	105.5%
1yr Rsrv Devlp/PY PHS	(1.2) pts	(1.9%)	(0.7%)	(1.2%)	(1.4%)	(2.7%)	(2.2%)	(2.2%)	(2.0%)	(3.9%)	(0.4%)
Net Invmnt. Inc. Earned	7.5%	48,935	45,539	47,228	46,401	46,594	48,041	49,005	47,620	47,722	52,305
Net Realized Gains (Loss)	126.8%	19,835	8,747	10,285	12,006	18,823	9,032	7,790	8,233	(8,183)	(20,660)
Net Invmnt. Gain (Loss)	26.7%	68,770	54,286	57,513	58,407	65,417	57,073	56,795	55,853	39,539	31,646
Investment Yield	0.07 pts	3.08%	3.01%	3.18%	3.17%	3.34%	3.61%	3.74%	3.72%	3.92%	4.23%
Total Other Income	NM	(4,693)	950	1,475	(2,908)	(580)	2,305	2,382	964	767	267
Net Income[1]	(9.7%)	38,710	42,858	56,884	56,439	69,725	36,486	18,292	36,400	30,194	1,750
Return on Revenue	(1.0) pts	6.3%	7.3%	9.9%	10.1%	12.9%	7.1%	3.7%	7.5%	6.4%	0.4%
December 31,	**YoY Chg**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Policyholders' Surplus[2]	7.0%	785,600	734,018	705,931	706,721	686,135	615,809	578,321	587,606	541,057	480,057
Return on Surplus	(0.9) pts	5.1%	6.0%	8.1%	8.1%	10.7%	6.1%	3.1%	6.5%	5.9%	0.3%

NM = Not Meaningful
1. Excludes investment income from affiliates. 2. Adjusted to eliminate stacked surplus

Market Conditions

The U.S. property and casualty insurance industry has experienced a prolonged soft market since 2007 that continued through 2017. Soft markets are generally characterized by lower premium rates, broader coverage, reduced underwriting standards and increased competition. However, following the 2017 catastrophe events and continued underperformance in the auto market, many insurers have taken steps to improve underwriting performance primarily through premium rate increases, albeit modest increases. According to the most recent market report from The Council of Insurance Agents & Brokers (CIAB), the majority of commercial lines experienced flat or slight increases in premium pricing in Q4 2017. The CIAB report indicated that premium rates increased by an average of 0.3%, ending 12 consecutive quarters of declining rates. Premium rates for the five major commercial lines of business increased by an average of 1.7% in Q4, with Commercial Auto topping the list with a 7.3% increase—the 26th consecutive quarter of premium rate increases within this line. Workers Compensation premium rates decreased by 2.0%.

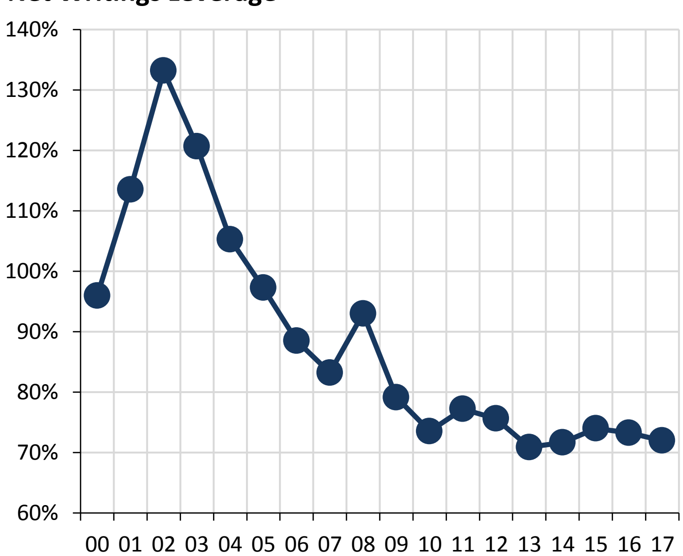
Average Commercial Premium Rates

Line of Business	2015				2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
All Commercial LOBs	(2.3%)	(3.3%)	(3.1%)	(2.8%)	(3.7%)	(3.9%)	(3.2%)	(3.3%)	(2.5%)	(2.8%)	(1.3%)	0.3%
Commercial Auto	1.5%	0.5%	1.3%	2.7%	3.6%	2.4%	3.2%	4.4%	5.4%	6.1%	7.3%	7.3%
Workers' Comp	(0.4%)	(1.9%)	(2.5%)	(2.6%)	(3.0%)	(4.3%)	(2.6%)	(2.9%)	(1.9%)	(2.7%)	(2.3%)	(2.0%)
Commercial Property	(4.0%)	(5.4%)	(5.2%)	(3.5%)	(5.2%)	(6.0%)	(4.5%)	(4.4%)	(3.1%)	(3.6%)	0.9%	2.4%
General Liability	(2.2%)	(3.0%)	(2.7%)	(3.4%)	(3.2%)	(3.6%)	(3.0%)	(2.6%)	(2.6%)	(2.7%)	(0.8%)	0.1%
Umbrella	(2.1%)	(2.7%)	(3.0%)	(2.8%)	(2.5%)	(2.8%)	(1.7%)	(1.4%)	(1.1%)	(1.4%)	(0.4%)	0.6%

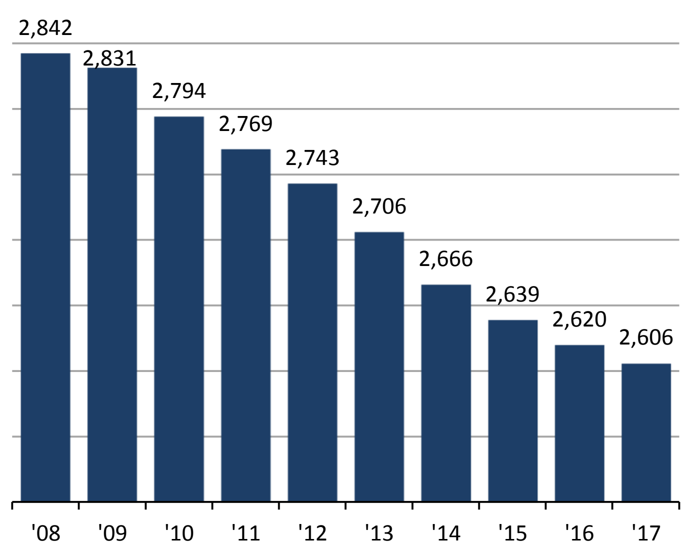
Source: The Council of Insurance Agents & Brokers, *Commercial Property/Casualty Market Index - Q4/2017*

Despite a sharp rise in catastrophe losses in 2017, along with the continued underperforming auto market and soft market conditions, the industry extended its profitable streak for the 16th consecutive year. Overall, insurers have retained a portion of these profits to strengthen balance sheets, enabling them to write more business and/or pursue mergers and acquisitions in order to build market share. As shown in the chart below, capacity certainly remains abundant, with little change over the last nine years. Direct premiums increased 4.6% YoY to $641.1 billion in 2017 and have increased for 31 consecutive quarters over prior-year quarters. All three markets experienced growth, led by a 6.4% increase in the Personal Lines market, followed by a 3.1% increase in the Combined Lines market and a 2.5% increase in the Commercial Lines market. Assumed premiums written increased 6.1% YoY to $487.7 billion, of which 89.9% was comprised of affiliated assumptions. U.S. intercompany pooling agreements comprised 62.4% of all reinsured business, followed by 25.4% affiliated U.S. non-pooled business. Cessions totaled $567.4 billion, representing a 6.2% increase over the prior year, to arrive at net premiums written of $561.5 billion.

Net Writings Leverage



No. of P&C Filers



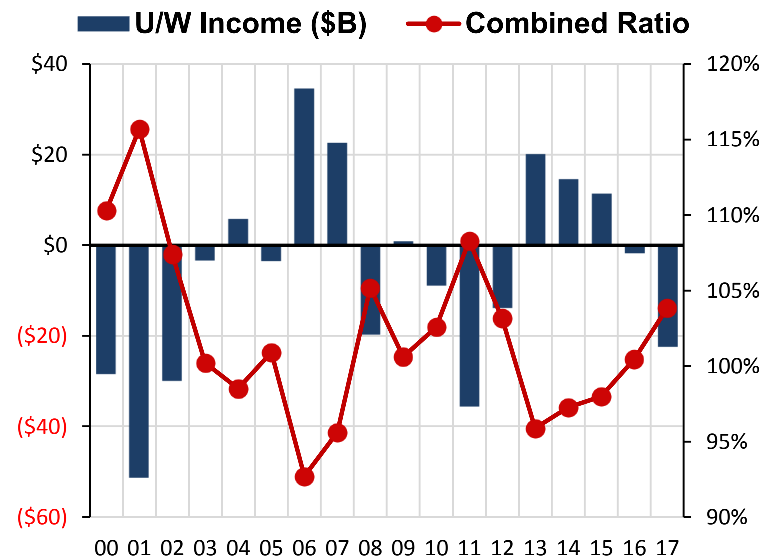
Direct Writings & Profitability by State, Territories, Etc.

State	Direct Premiums Written				Pure Direct Loss Ratio			Losses Incurred		Premiums Earned	
	YoY Chg	2017	2016	Market Share	YoY Chg	2017	2016	2017	2016	2017	2016
AL	5.6%	8,492	8,045	1.32%	2.2 pts	61.3%	59.1%	5,104	4,702	8,327	7,957
AK	0.3%	1,575	1,570	0.25%	6.6 pts	54.0%	47.4%	845	749	1,564	1,579
AR	7.4%	10,961	10,206	1.71%	(2.2) pts	60.8%	63.1%	6,494	6,264	10,676	9,932
AR	5.4%	5,179	4,913	0.81%	(14.9) pts	54.7%	69.6%	2,784	3,392	5,086	4,870
CA	4.4%	75,704	72,499	11.81%	18.5 pts	78.3%	59.8%	58,112	42,601	74,218	71,229
CO	8.4%	12,297	11,344	1.92%	4.0 pts	76.9%	72.9%	9,157	8,130	11,909	11,150
CT	2.8%	8,642	8,402	1.35%	0.7 pts	52.7%	52.1%	4,494	4,353	8,524	8,364
DE	7.2%	2,662	2,484	0.42%	0.6 pts	55.1%	54.6%	1,408	1,368	2,553	2,508
DC	3.2%	1,860	1,803	0.29%	(8.5) pts	56.3%	64.8%	1,036	1,135	1,841	1,752
FL	7.1%	50,385	47,065	7.86%	25.0 pts	80.1%	55.1%	39,257	25,580	48,999	46,396
GA	9.2%	19,951	18,275	3.11%	(0.6) pts	67.8%	68.3%	13,115	12,153	19,347	17,783
HI	2.2%	2,497	2,444	0.39%	12.4 pts	55.0%	42.6%	1,367	1,024	2,485	2,403
ID	6.3%	2,777	2,611	0.43%	11.7 pts	67.3%	55.7%	1,821	1,411	2,704	2,534
IL	2.4%	24,906	24,325	3.89%	1.6 pts	57.7%	56.1%	14,172	13,503	24,569	24,090
IN	3.5%	11,159	10,786	1.74%	(1.5) pts	56.2%	57.8%	6,192	6,156	11,013	10,657
IA	4.3%	6,536	6,264	1.02%	7.5 pts	57.2%	49.7%	3,694	3,046	6,463	6,130
KS	3.4%	6,428	6,217	1.00%	4.4 pts	54.8%	50.5%	3,474	3,136	6,334	6,215
KY	5.2%	7,450	7,079	1.16%	(1.0) pts	59.5%	60.6%	4,361	4,238	7,324	6,997
LA	4.0%	11,403	10,968	1.78%	(33.1) pts	53.5%	86.7%	6,038	9,457	11,278	10,913
ME	3.2%	2,277	2,206	0.36%	3.3 pts	50.4%	47.0%	1,129	1,016	2,242	2,161
MD	4.3%	11,669	11,192	1.82%	(0.4) pts	59.7%	60.1%	6,822	6,569	11,422	10,924
MA	3.9%	14,931	14,377	2.33%	(3.3) pts	47.4%	50.7%	6,951	7,141	14,653	14,079
MI	3.7%	19,173	18,480	2.99%	(2.2) pts	65.0%	67.3%	12,265	12,280	18,863	18,256
MN	3.1%	11,586	11,237	1.81%	10.3 pts	61.4%	51.1%	6,987	5,737	11,380	11,218
MS	4.1%	5,178	4,973	0.81%	0.4 pts	56.0%	55.6%	2,862	2,753	5,111	4,953
MO	4.9%	11,580	11,036	1.81%	2.6 pts	64.3%	61.7%	7,302	6,691	11,355	10,836
MT	6.0%	2,402	2,266	0.37%	(12.1) pts	59.6%	71.7%	1,410	1,654	2,364	2,307
NE	6.4%	4,841	4,549	0.76%	3.2 pts	69.9%	66.7%	3,344	2,976	4,784	4,463
NV	8.6%	5,145	4,739	0.80%	(3.8) pts	65.2%	69.0%	3,247	3,219	4,983	4,668
NH	2.5%	2,441	2,382	0.38%	5.1 pts	51.5%	46.4%	1,243	1,093	2,413	2,356
NJ	2.0%	21,222	20,816	3.31%	(2.1) pts	55.5%	57.6%	11,656	11,842	20,994	20,562
NM	5.3%	3,295	3,128	0.51%	0.5 pts	64.6%	64.0%	2,085	1,985	3,230	3,101
NY	3.0%	46,303	44,957	7.22%	(1.7) pts	56.8%	58.5%	25,957	26,028	45,702	44,496
NC	4.8%	15,682	14,965	2.45%	(5.7) pts	55.2%	61.0%	8,494	8,925	15,383	14,640
ND	4.1%	2,521	2,422	0.39%	(13.0) pts	52.9%	65.9%	1,329	1,554	2,511	2,357
OH	4.1%	16,489	15,846	2.57%	(1.3) pts	50.8%	52.1%	8,254	8,193	16,253	15,716
OK	2.4%	7,943	7,758	1.24%	(1.6) pts	51.4%	53.0%	4,053	4,112	7,884	7,756
OR	5.8%	6,951	6,569	1.08%	3.0 pts	59.9%	56.9%	4,085	3,649	6,818	6,415
PA	2.7%	24,314	23,677	3.79%	(4.6) pts	53.2%	57.8%	12,775	13,574	24,030	23,490
RI	4.1%	2,397	2,303	0.37%	(3.6) pts	51.7%	55.3%	1,215	1,261	2,350	2,282
SC	7.5%	9,550	8,884	1.49%	(7.9) pts	61.4%	69.3%	5,707	6,016	9,296	8,682
SD	2.7%	2,420	2,358	0.38%	8.8 pts	57.9%	49.1%	1,397	1,160	2,412	2,361
TN	4.7%	11,366	10,857	1.77%	(4.7) pts	59.3%	64.0%	6,624	6,858	11,172	10,711
TX	6.7%	54,445	51,015	8.49%	21.7 pts	95.4%	73.7%	50,734	37,074	53,165	50,298
UT	7.0%	4,691	4,382	0.73%	(4.7) pts	53.8%	58.5%	2,428	2,496	4,517	4,268
VT	1.8%	1,436	1,410	0.22%	0.3 pts	39.7%	39.5%	565	554	1,420	1,402
VA	4.3%	13,517	12,963	2.11%	(2.2) pts	58.1%	60.3%	7,706	7,674	13,271	12,732
WA	6.1%	11,893	11,206	1.86%	0.8 pts	59.6%	58.8%	6,920	6,436	11,616	10,943
WV	2.8%	3,008	2,927	0.47%	(8.7) pts	51.3%	60.1%	1,531	1,743	2,984	2,901
WI	2.9%	10,574	10,272	1.65%	1.3 pts	54.8%	53.6%	5,733	5,406	10,457	10,093
WY	4.8%	1,155	1,102	0.18%	(5.0) pts	56.9%	61.9%	644	681	1,133	1,099
AS	(14.7%)	0	0	0.00%	(65.5) pts	(55.7%)	9.8%	(0)	0	0	0
GU	(16.3%)	277	331	0.04%	12.4 pts	63.8%	51.4%	170	169	267	328
PR	(26.2%)	1,291	1,749	0.20%	619.4 pts	688.7%	69.4%	8,941	1,225	1,298	1,767
VI	(4.0%)	135	141	0.02%	752.1 pts	782.4%	30.3%	1,075	44	137	144
MP	(16.8%)	15	18	0.00%	(18.1) pts	30.1%	48.1%	4	8	13	17
Totals	**4.6%**	**641,060**	**612,586**	-	**6.2 pts**	**66.7%**	**60.5%**	**419,307**	**365,129**	**629,108**	**603,872**

Operating Results

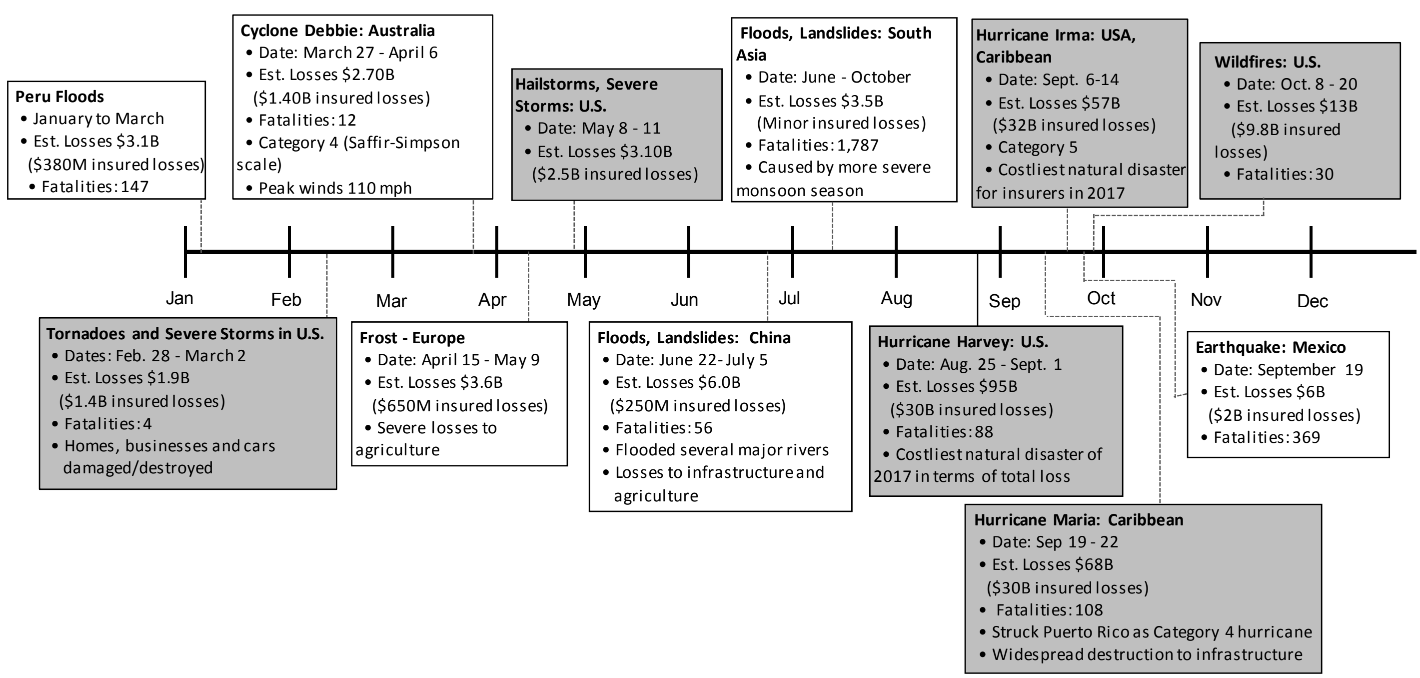
Underwriting Operations

For the second consecutive year, the U.S. property and casualty insurance industry recorded an underwriting loss, with a current year loss of $22.3 billion, a sharp deterioration from the $1.7 billion underwriting loss for 2016. This marks the first time that the industry has reported underwriting losses in consecutive years since 2011 and 2012. The loss for the current year was primarily driven by higher catastrophe losses, underperforming auto market, and various other lines with combined ratios over 100% in 2017 (see page 7 of report). All of these contributing factors are discussed in more detail below.



Catastrophe Losses

Overall worldwide losses from natural catastrophes amounted to $340 billion, double the ten-year, inflation-adjusted average of $170 billion. The hurricane season in the North Atlantic accounted for $215 billion in overall losses, of which $92 billion is expected to be insured in the U.S. Severe wildfires in the U.S. lasted until the end of the year with $10 billion in losses in the month of October alone. Approximately 93% of all events in 2017 were weather related, making 2017 the costliest year ever in terms of weather disasters.



Source: Münchener Rückversicherungs-Gesellschaft. (2018, January 4). *Natural catastrophe review: Series of hurricanes makes 2017 year of highest insured losses ever* [Press release]. Retrieved from https://www.munichre.com/en/media-relations/publications/press-releases/2018/2018-01-04-press-release/index.html

Source: Münchener Rückversicherungs-Gesellschaft. (2018, January). *Topics Geo: Natural Catastrophes 2017.* Retrieved from https://www.munichre.com/site/touch-publications/get/documents_E711248208/mr/assetpool.shared/Documents/5_Touch/_Publications/TOPICS_GEO_2017-en.pdf

Catastrophe Losses (… continued)

The overall loss data for property lines most affected by catastrophic events is provided by the table below. The U.S. Virgin Islands and Puerto Rico recorded pure direct loss ratios (PDLR) of 782.4% and 688.7%, respectively due to Hurricanes Irma and Maria. Texas had a PDLR of 95.4%, as Hurricane Harvey dropped approximately 52 inches of rain in the Houston area within roughly a week. Florida's PDLR of 80.1% was impacted by Hurricane Irma, and a 78.3% PDLR in California was largely attributed to wildfires from October to December.

Top Five States/Territories by Largest Pure Direct Loss Ratio

State/ Territory	**All Lines**	Allied Lines	Comm Auto PD	Comm MP Non-Liab	EQ	Farm MP	Flood (Fed)	Fire	Home MP	Inland Marine	Ocean Marine	Flood (Prvt)	Prvt Psgr Auto PD
U.S. VI	**782%**	7,576%	302%	1,108%	-	-	828%	1,168%	1,225%	356%	731%	6%	280%
PR	**601%**	3,543%	75%	1,149%	81%	1,112%	239%	583%	481%	607%	511%	161%	106%
TX	**95%**	300%	91%	137%	16%	82%	2,419%	94%	80%	77%	102%	1,521%	88%
FL	**80%**	200%	64%	105%	19%	71%	104%	74%	93%	61%	90%	94%	72%
CA	**78%**	114%	66%	82%	1%	225%	32%	97%	201%	51%	62%	15%	66%
All States	**67%**	**174%**	**67%**	**78%**	**6%**	**73%**	**301%**	**67%**	**74%**	**54%**	**65%**	**165%**	**66%**

Underperforming Auto Market

Auto Liability Industry Results

Private Passenger	**Chg.**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Net Premiums Earned	6.2%	$130,786	$123,203	$114,550	$111,029	$106,313	$102,238	$99,356	$96,319	$94,156	$94,411
Net Loss & LAE Incurred	2.3%	$107,635	$105,229	$95,067	$87,309	$82,892	$79,597	$77,646	$77,208	$75,931	$73,280
Other U/W Expenses	3.3%	$30,455	$29,479	$28,469	$27,729	$26,963	$25,774	$25,160	$24,639	$24,182	$23,868
Net U/W Gain / (Loss)	36.5%	($7,304)	($11,504)	($8,985)	($4,009)	($3,542)	($3,133)	($3,449)	($5,527)	($5,957)	($2,737)
Loss Ratio	(2.5)-pts	69.1%	71.6%	69.1%	64.9%	63.9%	63.7%	64.7%	66.6%	66.7%	64.4%
LAE Ratio	(0.6)-pts	13.2%	13.8%	13.9%	13.8%	14.1%	14.1%	13.4%	13.6%	13.9%	13.2%
Expense Ratio	(0.9)-pts	22.8%	23.7%	24.5%	24.7%	25.1%	24.9%	25.1%	25.2%	25.5%	25.2%
Dividend Ratio	0.0-pts	0.4%	0.4%	0.5%	0.5%	0.5%	0.4%	0.3%	0.5%	0.5%	0.3%
Combined Ratio	(4.0)-pts	105.5%	109.5%	107.9%	103.8%	103.5%	103.2%	103.6%	105.9%	106.6%	103.2%
Commercial	**Chg.**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Net Premiums Earned	2.6%	$22,022	$21,456	$20,311	$18,991	$17,881	$16,660	$16,073	$16,133	$16,823	$18,077
Net Loss & LAE Incurred	3.9%	$18,661	$17,960	$15,990	$14,084	$13,729	$12,609	$11,250	$10,701	$11,377	$12,106
Other U/W Expenses	4.0%	$6,526	$6,274	$6,191	$5,904	$5,624	$5,197	$5,030	$4,946	$5,007	$5,333
Net U/W Gain / (Loss)	(13.9%)	($3,165)	($2,778)	($1,870)	($997)	($1,472)	($1,146)	($207)	$486	$439	$638
Loss Ratio	0.5-pts	70.5%	69.9%	67.0%	63.0%	63.5%	62.8%	57.6%	54.1%	55.0%	54.3%
LAE Ratio	0.5-pts	14.3%	13.8%	14.7%	13.0%	13.3%	12.9%	12.4%	12.3%	12.7%	12.6%
Expense Ratio	(0.8)-pts	28.6%	29.4%	29.6%	27.6%	30.6%	30.7%	31.0%	30.8%	30.6%	30.4%
Dividend Ratio	0.1-pts	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Combined Ratio	0.3-pts	113.5%	113.2%	111.3%	103.6%	107.5%	106.5%	101.1%	97.2%	98.4%	97.5%

($ in millions, except percent)

As seen in the table above, the private passenger auto line of business has consistently generated underwriting losses for the past decade, with a current year loss of $7.3 billion, although a 36.5% YoY improvement compared with prior year's loss of $11.5 billion, the worst in the past ten years.

Underperforming Auto Market (… continued)

Underwriting performance continued to weaken in the commercial auto liability market with an underwriting loss of $3.2 billion, a 13.9% deterioration over the prior year underwriting loss of $2.8 billion. The YoY deterioration resulted from an aggregate 3.9% rise in net loss, LAE, and other underwriting expenses incurred to $25.2 billion that was partly offset by a 2.6% increase in net premiums earned to $22.0 billion. The current year combined ratio remained relatively flat at 113.5%.

Various Other Lines of Business with Combined Ratios (Net Basis) Over 100 percent

In 2017, 22 of the 38 lines of business had combined ratios over 100 percent, compared with 16 lines of business in 2016, 12 in 2015, and 15 in 2014. The deteriorating results in 2017 were due, in large part, to higher catastrophe losses, as previously discussed. The following are highlights of additional lines of business not previously discussed with unfavorable profitability trends that continued in 2017:

Accident & Health (1.8% of total NPW)

A&H net premiums written have increased at an above industry average pace for the second consecutive year. Current year aggregate net premiums written increased 18.9% over the prior year to $1$9.9 billion, of which Group A&H premiums accounted for 57.6% of the total followed by Other A&H – 42.4% and Credit – 0.4%. Per the A&H Policy Experience Exhibit, the top A&H lines on a direct premium earned basis included:

- Stop Loss and Excess of Loss – 20.4%
- Other Group Care – 18.6%
- Comprehensive Major Medical – 15.2%
- Long Term Care – 8.5%
- Accident Only or AD&D – 8.2%

From an underwriting perspective, the aggregate A&H combined ratio improved 5.7-points over the prior year, however remained poor at 103.9%. The improvement was driven by the expense ratio which improved 4.5-points to 24.1% and a 1.2-point improvement in the net loss ratio to 79.8%. The A&H underwriting results have been hindered by the Other A&H and Credit A&H lines of business, wherein the combined ratios were over 100 percent the past two years.

Excess Workers' Compensation (0.14% of total NPW)

Excess Workers Compensation is a type of workers compensation coverage that covers losses above the attachment point, either by a single occurrence or in aggregate. Net losses incurred in 2017 amounted to $618.3 million, while net premiums earned totaled $790.2 million, resulting in a net loss ratio of 96.6%. Overall, the 2017 combined ratio was 123.6% and has surpassed the 100 percent profit threshold in each of the last four years.

Medical Professional Liability (1.4% of total NPW)

Medical Professional Liability net premiums written have declined YoY for the past decade, for an overall 10-year decline of 16.4%. Net premiums written totaled $8.0 billion in 2017 for this line of business, down 2.2% from the prior year. The combined ratio for this line has steadily worsened during this timeframe. In 2014, the combined ratio surpassed the 100 percent profitability benchmark and has remained unprofitable ever since.

Products Liability (0.5% of total NPW)

The combined ratio for the Products Liability line of business has been over 100 percent in each of the last ten years. Products Liability coverage provides protection to the manufacturer, distributor, seller or lessor of a product against legal liability resulting from a defective condition causing personal injury, or damage, to any individual or entity, associated with the use of the product. In 2017, net incurred losses totaled $940.3 million while net premiums earned amount to $2.6 billion, resulting in a net loss ratio of 69.0%. Together with an expense ratio of 33.0%, the 2017 combined ratio was 102.1%.

Combined Ratio by Lines of Business

Lines of Business	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Aggregate Write-ins	41.2%	83.5%	83.7%	125.4%	64.0%	56.3%	75.7%	80.7%	81.9%	99.7%
Aircraft (all perils)	109.2%	113.1%	100.7%	89.1%	99.5%	98.5%	102.6%	94.1%	94.5%	97.0%
Allied Lines	182.0%	96.6%	88.1%	85.4%	85.3%	129.9%	122.3%	92.0%	85.4%	115.9%
Boiler and Machinery	76.5%	78.8%	69.9%	76.1%	72.4%	80.1%	74.8%	71.6%	71.7%	87.7%
Burglary and Theft	49.1%	46.2%	61.4%	59.9%	42.2%	58.6%	61.6%	69.4%	59.4%	48.5%
Commercial Auto Liab	113.5%	113.2%	111.3%	103.6%	107.5%	106.3%	101.1%	97.1%	100.2%	97.5%
Commercial Auto Phy Dmg	104.2%	102.0%	100.9%	103.1%	104.9%	109.1%	112.1%	101.6%	97.0%	94.8%
Commercial MP (Liab)	101.6%	105.6%	99.3%	103.5%	103.0%	94.1%	102.0%	96.1%	94.2%	97.7%
Commercial MP (Non-Liab)	111.8%	99.1%	91.9%	97.1%	94.4%	114.6%	120.0%	103.2%	99.0%	108.2%
Credit	90.8%	92.1%	76.5%	74.7%	74.9%	91.3%	94.3%	127.3%	140.8%	170.6%
Credit A & H	128.3%	120.9%	42.3%	45.2%	45.0%	49.5%	38.3%	87.8%	84.1%	91.1%
Earthquake	43.6%	33.9%	28.5%	34.3%	30.5%	36.7%	57.0%	45.7%	32.5%	33.8%
Excess Workers' Comp	123.6%	109.2%	112.0%	107.4%	69.3%	151.4%	133.9%	51.4%	35.1%	148.3%
Farmowners MP	105.7%	91.1%	89.9%	95.4%	94.0%	99.5%	117.2%	108.2%	107.7%	119.5%
Fidelity	74.0%	78.4%	77.2%	92.7%	92.9%	99.3%	102.0%	96.5%	105.3%	84.2%
Financial Guaranty	320.1%	177.2%	99.2%	91.3%	(3.4%)	181.2%	218.8%	227.3%	101.2%	422.5%
Fire	119.2%	92.3%	85.1%	85.4%	78.5%	86.5%	92.9%	79.9%	79.4%	93.2%
Group A & H	90.5%	98.4%	100.1%	96.9%	99.9%	94.1%	99.2%	96.2%	93.0%	98.3%
Homeowners MP	107.8%	93.4%	92.1%	92.7%	90.3%	104.0%	122.0%	106.6%	105.7%	116.1%
Inland Marine	90.0%	84.0%	83.9%	83.5%	83.8%	96.2%	97.1%	86.5%	89.1%	93.3%
International	130.7%	144.3%	2.0%	116.7%	92.6%	91.5%	97.7%	181.2%	146.9%	147.3%
Medical Prof Liab	101.4%	106.4%	102.3%	104.7%	89.4%	93.3%	88.0%	88.7%	85.5%	78.9%
Mortgage Guaranty	40.4%	49.8%	58.1%	70.2%	98.0%	189.7%	219.1%	199.0%	202.4%	219.9%
Multiple Peril Crop	84.1%	81.7%	99.9%	104.9%	103.3%	104.0%	90.6%	73.9%	79.7%	89.9%
Ocean Marine	110.5%	95.8%	94.7%	91.2%	98.1%	109.2%	100.5%	96.2%	91.4%	102.8%
Other A & H	133.1%	128.6%	132.0%	126.6%	132.5%	133.0%	119.5%	135.8%	122.1%	99.7%
Other Liab - Claims-Made*	98.9%	103.4%	98.6%	88.1%	97.4%	100.4%	100.8%	96.6%	96.5%	NA
Other Liab - Occur*	101.6%	114.9%	103.3%	101.5%	96.4%	104.9%	92.8%	115.1%	112.1%	92.1%
Private Crop	107.5%	122.3%	146.2%	138.8%	NA	NA	NA	NA	NA	NA
Private flood	186.2%	93.1%	NA	NA	NA	NA	NA	NA	NA	NA
Products Liability	102.1%	119.8%	130.6%	134.4%	155.2%	102.2%	158.8%	157.3%	123.0%	124.9%
Prvt Psgr Auto Liab	105.5%	109.5%	107.9%	103.8%	103.5%	103.2%	103.6%	105.9%	106.6%	103.2%
Prvt Psgr Auto Phy Dmg	98.2%	101.7%	99.5%	100.3%	98.7%	100.2%	99.5%	93.4%	93.4%	95.8%
Reinsurance-Nonproportional	122.8%	78.6%	72.3%	63.2%	72.9%	79.8%	114.4%	79.5%	69.4%	97.8%
Surety	72.2%	72.4%	73.8%	69.3%	72.7%	76.8%	72.8%	70.7%	79.5%	66.9%
Warranty	90.6%	88.8%	107.9%	93.5%	104.2%	99.5%	97.1%	107.2%	97.4%	94.3%
Workers' Comp	92.2%	95.4%	95.9%	102.6%	98.8%	111.2%	118.4%	118.3%	111.3%	104.4%

*In 2008, Other Liability Includes Occurrence and Claims-Made
NA = Not Available; NM = Not Material
Note: Federal Flood is not shown due to negative combined ratio results

Investment Operations

Investment returns were $68.8 billion, 26.7% higher YoY compared to $54.3 billion in 2016. The improvement was primarily associated with a 126.8% YoY increase in realized capital gains to $19.8 billion, primarily due to gains on unaffiliated common stocks. Net investment income increased 7.5% YoY to $48.9 billion with the majority derived from unaffiliated bonds. The industry average investment yield improved slightly in 2017 to 3.08%, following a steady decline over the past 11 years.

Net Income

Ultimately, the investment returns offset the deterioration in underwriting performance resulting in a net profit of $38.7 billion, a 9.7% deterioration compared to prior year's profit of $42.9 billion. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was slightly lower at 6.3% versus 7.3% for the prior year and has declined for four consecutive years due, in large part, to deteriorating underwriting results.

Capital and Surplus

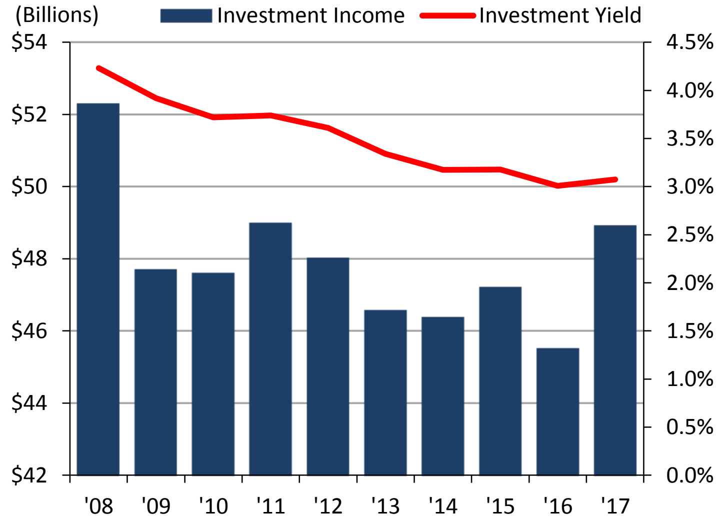
Policyholders' surplus (adjusted for affiliated investments) increased 7.0% to another new high of $785.6 billion at December 31, 2017. The increase was primarily attributable to net income and unrealized capital gains of $40.3 billion that were offset, in part, by dividends to stockholders of $34.6 billion and a $22.8 billion decrease in the net deferred tax assets related to the recent tax act. Return on surplus—a measure of net income to average policyholders' surplus—was 5.1% for the year, down 0.9-percentage points from 6.0% recorded in the prior year and 5.6-perentage points lower compared to five years ago.

Cash & Liquidity

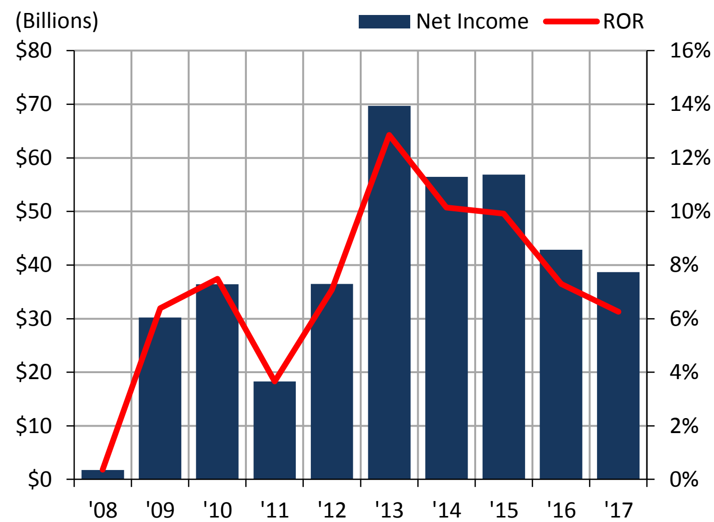
Net cash provided by operating activities totaled $50.7 billion in 2017, a 10.4% decrease compared to $56.6 billion in 2016. The decline was primarily due to higher benefit and loss related payments related to the aforementioned catastrophe losses and a 47.8% decline in federal income taxes.

Liquidity remained strong at 78.8%, relatively unchanged from last year. Liquid assets were 4.6% higher, which outpaced a 4.1% increase in adjusted liabilities.

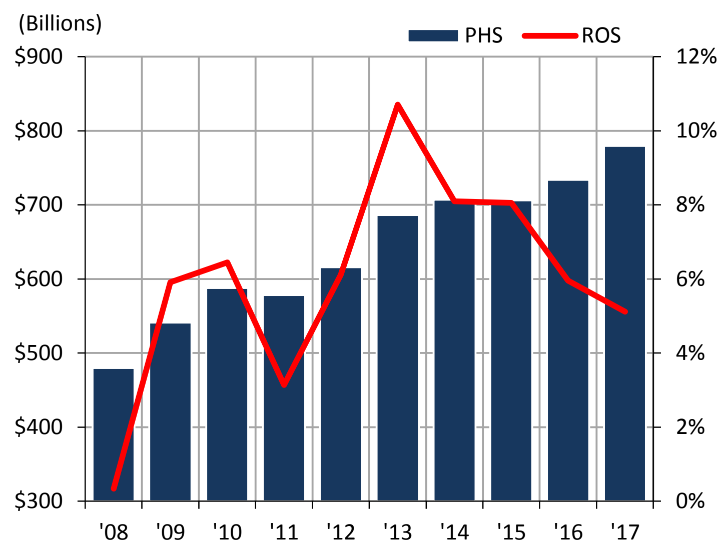
Investment Income



Profitability

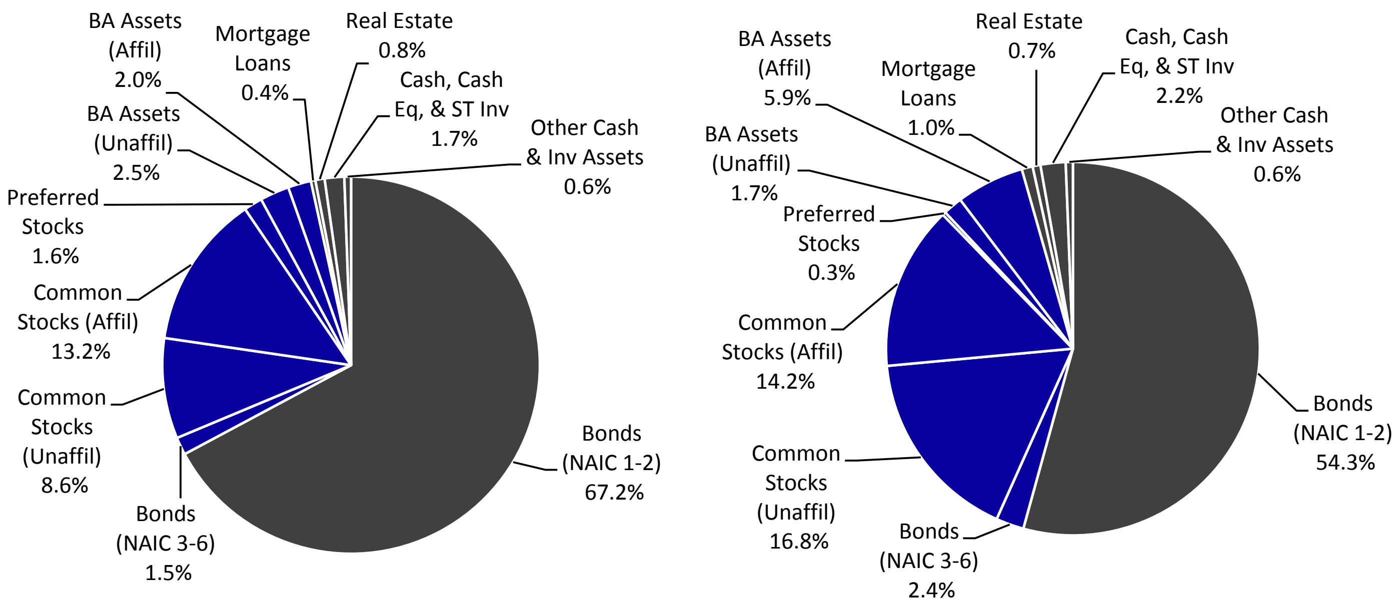


Policyholders' Surplus



Cash & Liquidity (...continued)

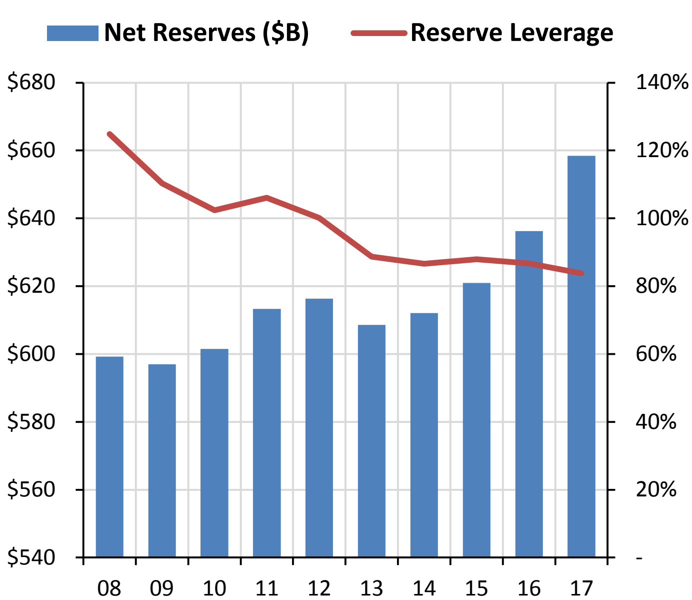
Steady growth in cash and invested assets continued, however, there has been a shift in the asset mix in recent years as less liquid assets (e.g., other long-term invested assets) have grown at a faster pace than liquid assets (bond holdings). In 2017, investment growth in bonds increased by 0.5% while other long-term invested assets increased 7%. Further, the ten year growth in bond holdings was just 16% while other long-term investments increased by 133%.

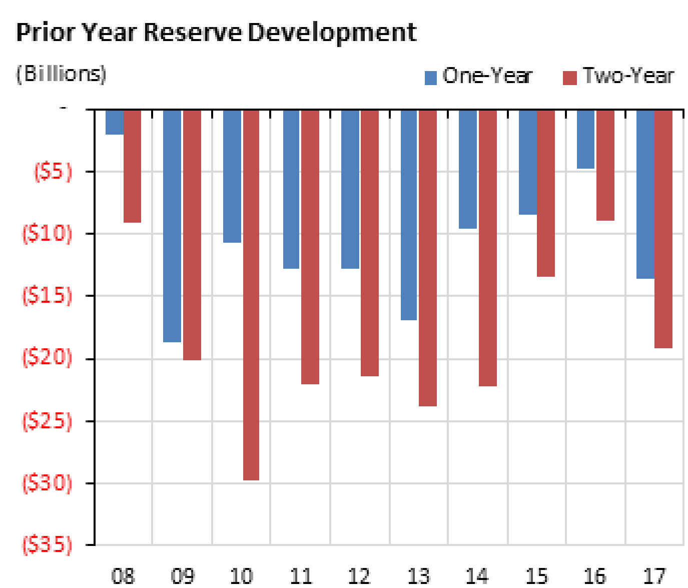


Investment Allocation
December 31, 2008 → **10-year Period** → **Investment Allocation**
December 31, 2017

Reserves

Net loss and LAE reserves increased 3.5% YoY to $658.5 billion, of which $544.6 billion were unpaid losses and $113.9 billion unpaid LAE. The increase in reserves was entirely attributed to current year incurred, as the trend of prior year reserve releases continued with $13.6 billion in favorable prior year reserve development in 2017. In previous industry reports, we reported that the trend of prior year reserve releases has continued to slow, however, as shown in the accompanying chart there was a sharp increase in 2017. This is due, in large part, to a few significant one-off transactions (i.e., loss portfolio transfers and group restructuring) that resulted in a large portion of reserves ceded to offshore companies. Collectively, these transactions accounted for more than half of the 2017 development.



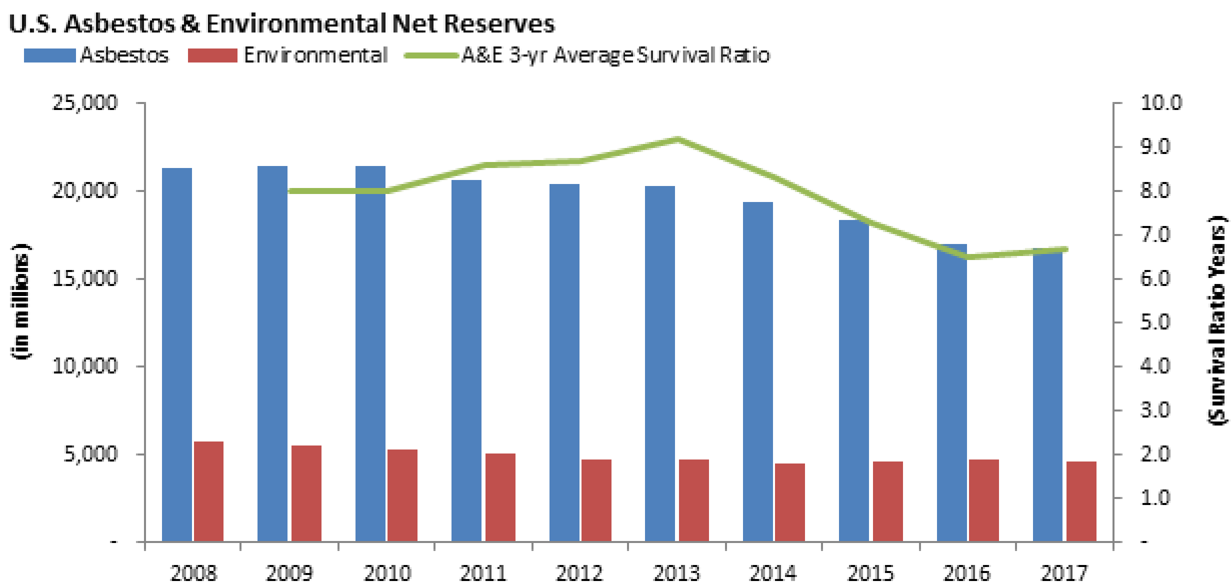


Reserves (...continued)

In terms of prior year reserve development by lines of business, adverse development occurred within the private passenger auto liability (primarily 2015 and 2016 accident years) and commercial auto liability (primarily accident years 2013 – 2016) totaling $1.0 billion and $1.3 billion, respectively. Except for nominal adverse development in other liability (claims-made), warranty, and products liability (occurrence) lines, favorable development occurred in all other lines of business, with the workers' compensation line accounting for more than half with $7.0 billion favorable development in 2017.

Asbestos and Environmental Reserves

Gross asbestos and environmental (A&E) reserves decreased 1.1% to $41.8 billion at December 31, 2017 from $42.2 billion a year ago. On a net basis, A&E reserves decreased 1.8% YoY to $21.4 billion, as net claim payments totaled $2.5 billion while net incurred losses and LAE totaled $2.3 billion in 2017. As a result, the A&E three-year average survival ratio—net A&E reserves divided by the three year average of net claim payments—improved to 6.7 years compared to 6.5 years last year.



Asbestos

The industry continues to be faced with the uncertainty over ultimate loss obligations of asbestos-related claims. This is due to a variety of factors, including, but not limited to the following: there are often long periods between asbestos -exposure and manifestation of any bodily injury; difficulty in identifying the source of contamination; number of insureds and/or identifying insureds with potential exposure is unknown; and the often high costs to resolve claims. Moreover, recent research reports have indicated that more diseases are being associated with asbestos exposure than before, which is also contributing to the uncertainty over insurers ultimate loss obligations. Despite the uncertainty, net asbestos-related reserves decreased 1.6% YoY to $16.8 billion at December 31, 2017, continuing a seven-year slide. However, during the year, 27 of the top 30 insurers in terms of net asbestos-related reserves, reported an increase in net incurred losses. Overall, net incurred losses totaled $1.7 billion in 2017, representing a 14.1% increase over the prior year total of $1.5 billion. With respect to net claim payments, the industry saw a 40.2% drop to $1.8 billion versus $3.0 billion a year ago. As a result, there was a slight improvement in the three-year average survival ratio to 6.6 years from 6.3 years, but remains far below the 10-year high of 10.5 years at year-end 2013.

Environmental

In regard to environmental reserves, after two consecutive years of increases, net reserves decreased 2.5% YoY to $4.6 billion at December 31, 2017, as net claim payments totaling $751 million exceeded net incurred losses totaling $636 million. Compared to ten years ago, net environmental reserves have decreased by 20%. The three-year average survival ratio for environmental-related reserves fell to 6.7 years from 7.1 years last year.

Professional Reinsurance Market

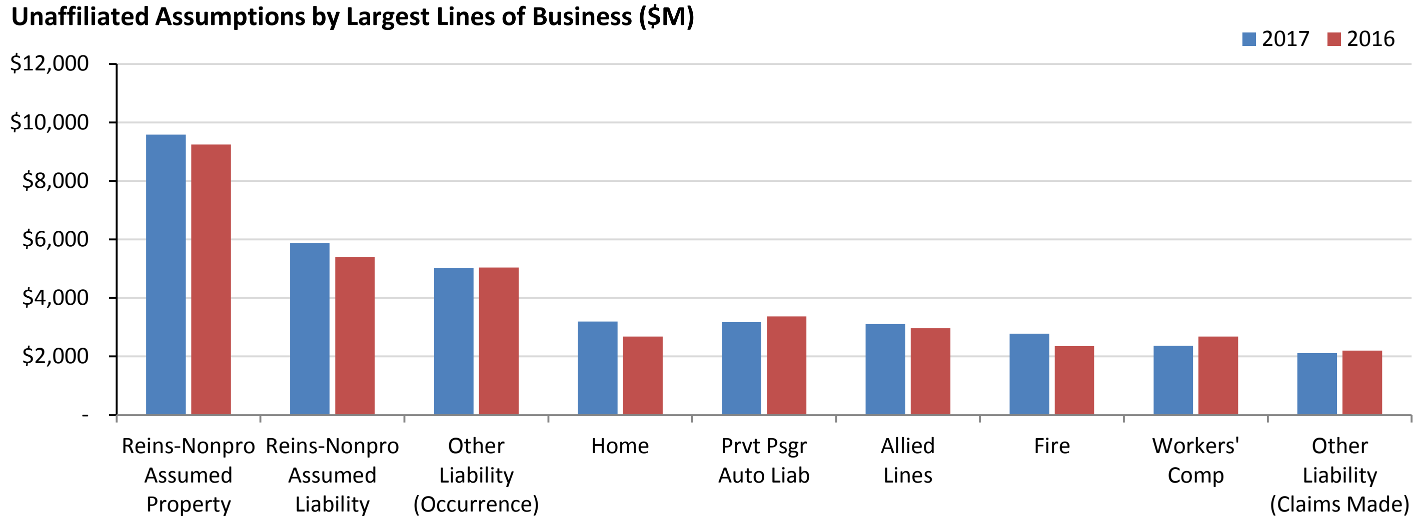
Professional Reinsurers Financial Snapshot

For the year ended December 31,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Unaffiliated APW	37,342	36,487	36,432	35,869	34,514	35,883	35,028	30,944	33,227	33,846
Net Premiums Written	78,930	73,687	78,029	86,744	64,407	55,497	51,266	48,508	47,184	58,804
Net Premiums Earned	73,471	72,117	75,213	82,367	60,604	54,927	50,030	48,428	45,180	59,727
Net Losses Incurred	52,949	43,799	42,049	47,613	30,774	36,730	36,334	29,849	26,955	39,677
Loss Expenses Incurred	7,197	6,953	7,815	8,903	6,009	5,916	5,078	6,394	4,972	5,904
Underwriting Expenses	21,196	20,816	21,631	21,801	19,205	15,688	14,092	13,471	12,935	15,706
Underwrting Gain (Loss)	(7,867)	528	3,697	4,096	4,619	(3,405)	(5,499)	(1,136)	347	(1,573)
Net Loss Ratio	81.9%	70.4%	66.3%	68.6%	60.7%	77.6%	82.8%	74.8%	70.7%	76.3%
Expense Ratio	26.9%	28.2%	27.7%	25.1%	29.8%	28.3%	27.5%	27.8%	27.4%	26.7%
Combined Ratio	108.7%	98.6%	94.1%	93.8%	90.6%	106.0%	110.3%	102.7%	98.1%	103.1%
Net Invmnt. Inc. Earned	12,587	11,794	13,087	19,503	15,699	13,846	12,620	14,105	10,782	12,080
Net Realized Gains (Loss)	2,875	2,443	2,142	3,219	10,081	521	1,807	3,013	(1,863)	(1,978)
Net Invmnt. Gain (Loss)	15,462	14,237	15,229	22,722	25,780	14,368	14,427	17,118	8,919	10,102
Investment Profit Ratio	21.0%	19.7%	20.2%	27.6%	42.5%	26.2%	28.8%	35.3%	19.7%	16.9%
Net Income	1,055	13,283	16,010	21,120	26,625	9,617	8,169	14,124	7,302	5,967
Return on Revenue	1.2%	15.4%	17.7%	20.1%	30.8%	13.9%	12.7%	21.5%	13.5%	8.5%

(in millions, except for percent data)

The professional reinsurance market includes reinsurers that collectively comprised the top 75% of the industry's unaffiliated assumptions. In 2017, 29 reinsurers represented this market. Assumed premiums written in 2017 totaled $487.7 billion for the overall industry, of which $49.5 billion were unaffiliated assumptions with $37.3 billion assumed by the 29 professional reinsurers. As seen in the above table, the professional reinsurance market experienced a net underwriting loss of $7.9 billion in 2017, accounting for 35.2% of the overall industry underwriting loss, as the reinsurance market absorbed a significant portion of the losses from catastrophe events. The combined ratio was sharply worse at 108.7% for 2017 compared to 98.6% a year ago, entirely due to the rise in incurred losses that drove the loss ratio higher to 81.9%. The 2017 underwriting loss was offset by a net investment profit of $15.5 billion, resulting in a net profit of $1.1 billion. Like the overall industry, return on revenue has sharply worsened over the last five years, from 30.8% in 2013 to 1.2% in 2017.

Unaffiliated Assumptions by Largest Lines of Business ($M)



Title Industry

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

For the year ended December 31,	YoY Chg	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net Premiums Written	3.4%	$14,617	$14,133	$12,964	$11,156	$12,569	$11,246	$9,249	$9,438	$9,286	$9,916	$14,054
Title Premiums Earned	3.5%	$14,461	$13,976	$12,787	$11,389	$12,490	$11,233	$9,364	$9,403	$9,468	$10,226	$13,857
Loss & LAE Incurred	(8.5%)	$629	$687	$672	$742	$825	$851	$1,102	$1,105	$1,024	$1,316	$1,297
Operating Exp. Incurred	5.5%	$14,089	$13,357	$12,163	$10,659	$11,919	$10,881	$9,300	$9,597	$9,693	$10,226	$14,015
Net Operating Gain/(Loss)	1.6%	$885	$871	$831	$799	$686	$498	($22)	($214)	($133)	($714)	($97)
Net Loss Ratio	(0.6) pts	4.3%	4.9%	5.3%	6.5%	6.6%	7.6%	11.8%	11.8%	10.8%	12.9%	9.4%
Expense Ratio	1.8 pts	96.4%	94.6%	93.9%	95.7%	94.8%	96.7%	100.9%	101.7%	104.4%	108.2%	99.7%
Combined Ratio	1.3 pts	100.8%	99.5%	99.1%	102.2%	101.5%	104.3%	112.7%	113.4%	115.2%	121.1%	109.1%
Net Invmnt. Inc. Earned	25.9%	$348	$276	$326	$261	$274	$321	$346	$334	$517	$406	$556
Net Realized Gains (Loss)	(12.7%)	$142	$162	$9	$1	$26	$36	$34	($80)	($50)	($178)	($25)
Net Invmnt. Gain (Loss)	11.9%	$489	$437	$336	$262	$299	$356	$380	$254	$467	$227	$531
Net Income	5.8%	$1,016	$961	$871	$855	$769	$719	$309	$31	$351	(407)	$313
Net Cash From Ops	10.4%	$1,193	$1,081	$1,039	$698	$706	$844	$167	$202	$188	(383)	$709
Liquidity Ratio	(2.7) pts	67.9%	70.6%	70.4%	73.3%	76.1%	81.7%	96.3%	98.3%	102.6%	111.5%	98.9%

December 31,	YoY Chg	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Policyholders' Surplus	0.4%	$4,818	$4,800	$4,357	$4,251	$4,122	$3,842	$2,950	$2,984	$3,201	$2,731	$3,129

Premium

Title premiums are produced almost entirely on a direct basis, either through direct operations or agency operations (mostly non-affiliated with 62.8% of total DPW). Direct premiums written increased 3.4% YoY to $14.6 billion in 2017 and have increased in three consecutive years. According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development February 2018 Statistics, new home sales were nearly flat at 0.5% above new home sales in 2016. Nearly half of direct writings were concentrated in five states, TX, CA, FL, NY, and PA, which represented 47.4% of total DPW. With less than 1% reinsurance utilized in the industry, net writings totaled $14.6 billion and net retention was 99.6%. The net writings leverage ratio rose 9-percentage points YoY to 303.4%.

Profitability

For the sixth consecutive year, a net operating gain was recorded in the title industry with a gain of $885 million in 2017, a 1.6% increase compared to prior year's gain of $871 million. The increase was due to a 4.6% rise in total operating income to $15.6 billion (primarily due to title insurance premiums earned), while total operating expenses rose 4.8% to $14.7 billion (due to a 5.5% increase in operating expenses). The combined ratio was 100.8% for the year, representing a 1.3-percentage point deterioration from the prior year, represented by a 4.3% loss ratio and a 96.4% expense ratio.

A net investment gain of $489.3 million was reported for the year, up 11.9% compared to a gain of $437.5 million in the prior year and was comprised of net investment income earned of $347.8 million and net realized gains of $141.5 million.

Ultimately, the industry reported a 5.8% or $55.4 million YoY increase in net income to $1.0 billion compared with net income of $960.9 million in 2016.

Capital & Surplus

Industry aggregated policyholders' surplus was nearly flat at $4.8 billion at December 31, 2017. The $18.1 million increase was mainly driven by net income of $1.0 billion, a $156.1 million change in accounting principles (resulted from a reduction in statutory premium reserve by three insurers), and $111.8 million net unrealized capital gain, partly offset by dividends to stockholders of $1.2 billion. Return on surplus—a measure of net income to average policyholders' surplus—was flat at 21.1% on the year.

Cash & Liquidity

Net cash from operations totaled $1.2 billion for 2017, which represented a 10.4% or $112.6 million increase compared to 2016 cash of $1.1 billion. The improvement was due to a 5.2% or $793.2 million increase in cash inflows to $16.1 billion that primarily resulted from a 3.7% rise in premiums collected. Cash outflows increased 4.8% or $680.6 million to $14.9 billion due to a 5.4% increase in commissions and expenses paid.

Net cash from investing activities totaled $33.3 million, as total investment proceeds increased 27.0% to $2.3 billion and total investments acquired increased 7.4% to $2.2 billion.

Cash used by financing and miscellaneous sources amounted to $1.2 billion, the majority of which were related to stockholder dividends.

Overall, cash, cash equivalents, and short-term investments increased $25.1 million.

The industry's liquidity ratio improved 2.7-percentage points to 67.9%, as adjusted liabilities dropped 1.1% to $5.4 billion and liquid assets rose 2.9% to $7.9 billion.

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