U.S. Property & Casualty and Title Insurance Industries

Property & Casualty Industry Overview

Following back-to-back years of underwriting losses, the U.S. property and casualty insurance industry rebounded with an underwriting profit of $7.0 billion in the first half of 2018. The improvement primarily resulted from a combination of lower catastrophe losses and more underwriting discipline that includes modest increases in premium rates and better performance in the personal and commercial auto markets. The effect, the net loss ratio improved 4.2-points to 68.9%, a 10-year low at the halfway mark. The underwriting improvement, combined with solid investment performance, contributed to a net profit of $35.8 billion—more than double last year's profit. Although a portion of the current period profits were retained, more than half was offset by stockholder dividends. Overall, industry surplus continued a streak of all-time highs reaching $794.9 billion at June 30, 2018, a 1.1% increase since last year.

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

For the six months ended June 30,	YoY Chg	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Direct Premiums Written	6.0%	340,512	321,287	306,966	295,491	282,824	269,084	259,860	249,002	242,788	242,594
Net Premiums Written	12.9%	316,627	280,399	268,836	261,147	251,373	241,363	231,591	222,968	217,002	217,447
Net Premiums Earned	10.0%	297,369	270,413	261,650	252,503	242,991	232,850	223,377	216,767	211,920	216,623
Net Losses & LAE Incurred	3.7%	204,772	197,480	186,897	174,971	171,781	159,469	163,793	177,717	155,774	158,557
Underwriting Expenses	12.5%	85,231	75,755	74,514	72,402	69,303	67,567	65,638	62,613	61,056	60,630
Underwrting Gain (Loss)	NM	7,033	(3,236)	(182)	4,728	1,518	5,793	(5,887)	(23,686)	(4,681)	(1,822)
Net Loss Ratio	(4.2) pts	68.9%	73.0%	71.4%	69.3%	70.7%	68.5%	73.3%	82.0%	73.5%	73.2%
Expense Ratio	(0.1) pts	26.9%	27.0%	27.7%	27.7%	27.6%	28.0%	28.3%	28.1%	28.1%	27.9%
Combined Ratio	(4.3) pts	96.3%	100.6%	99.7%	97.6%	98.8%	97.0%	102.2%	110.6%	102.1%	101.5%
Net Invmnt. Inc. Earned	12.9%	28,869	25,576	24,190	24,664	25,238	27,049	25,440	27,052	27,766	25,623
Net Realized Gains (Loss)	42.7%	5,543	3,884	4,815	8,550	7,603	11,051	4,099	3,912	4,355	(11,462)
Net Invmnt. Gain (Loss)	16.8%	34,412	29,460	29,006	33,214	32,842	38,100	29,539	30,964	32,122	14,160
Total Other Income	NM	937	(4,956)	(1,029)	910	693	(1,637)	1,379	(502)	(1,029)	(1,556)
Net Income (a)	102.8%	35,829	17,669	22,227	32,707	28,521	35,720	20,149	6,553	22,176	6,921

	YoY Chg	June 30, 2018	December 31, 2009-2017 2017	2016	2015	2014	2013	2012	2011	2010	2009
Policyholders' Surplus (a)	1.1%	794,863	786,023	734,026	705,948	706,740	686,135	615,809	578,321	587,606	541,057

(a) adjusted to remove stacking — NM = Not Meaningful

Market Conditions

Market conditions remained soft for most lines of business despite record catastrophe losses in 2017 that contributed to an underwriting loss for the year. While many insurers responded to last year's catastrophe events and underperforming auto markets with higher premium rates, on a macro level rate increases have been modest. According to The Council of Insurance Agents & Brokers' (CIAB) *Commercial Property/Casualty Market Report Q2 2018 (April 1—June 30)*, premium pricing increased slightly for all commercial lines of business, except for workers' compensation. The average increase was 2.0% in Q2 2018, the fourth consecutive quarter where rates were higher, although slightly lower from 2.2% increase reported in Q1 2018.

3 months ended	COMM'L AUTO	WORKERS' COMP	COMM'L PROPERTY	GEN'L LIABILITY	UMBRELLA	AVERAGE
Second Quarter 2018	8.2%	(2.9%)	2.2%	0.8%	1.5%	2.0%
First Quarter 2018	7.7%	(2.0%)	3.4%	0.6%	1.0%	2.2%
Fourth Quarter 2017	7.3%	(2.0%)	2.4%	0.1%	0.6%	1.7%
Third Quarter 2017	7.3%	(2.3%)	0.9%	(0.8%)	(0.4%)	1.0%
Second Quarter 2017	6.1%	(2.7%)	(3.6%)	(2.7%)	(1.4%)	(0.9%)
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	(11.6%)	(12.3%)	(15.0%)	(13.6%)	(13.5%)	(13.2%)

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

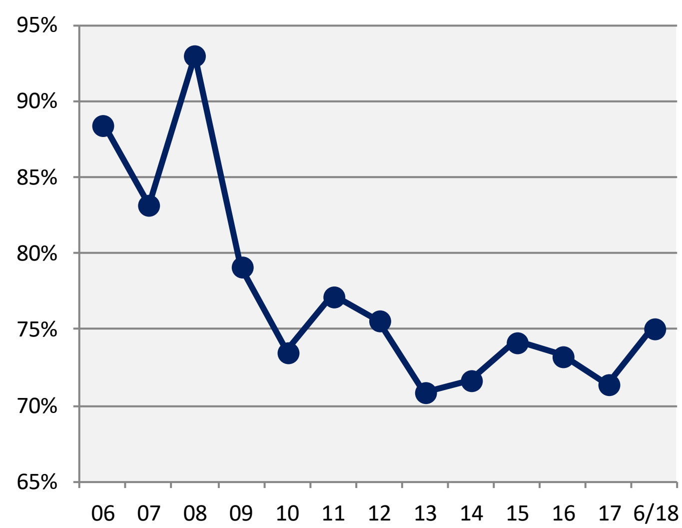
In addition to commercial pricing trends, the following key takeaways were included in the CIAB report:

- The demand for cyber insurance remained the highest out of all lines of business, according to respondents. **Seventy-seven (77) percent** of respondents reported a "somewhat" or "significant" increase in demand for cyber coverage.
- Q2 2018 was the 28th consecutive quarter of increased commercial auto rates: premium pricing for commercial auto increased **8.2 percent**.
- As with Q1 2018, **"driving organic growth"** and **"recruiting and developing talent"** remained the top two organizational priorities for respondents' firms, with **82 percent** of respondents listing the former and **73 percent** the latter.

Capacity

As shown in the accompanying chart, despite 2017 catastrophe losses and an extended soft market, capacity remains abundant, although slightly lower compared with the previous five years. This is due, in large part, to the lack of large-scale loss events prior to 2017, which contributed to stronger profit margins and stronger balance sheets. Many insurers have utilized excess capital to expand into new lines of business and/or news states or territories. Some insurers have accomplished this through mergers and acquisitions. The intense market competition has also pushed several smaller insurers out of the market. As a result, the number of property and casualty filers continued a 10-year decline to 2,595 at June 30, 2018, compared to 2,838 in 2008.

Net Writings Leverage



Writings

Direct premiums written (DPW) increased 6.0% to $340.5 billion in the first half of 2018 compared to $321.3 billion for the same period in 2017. Sequentially, direct writings have increased for 33 consecutive quarters over the same prior year quarters with an average 4.0% growth rate during this period. All three markets, Personal, Commercial, and Combined Lines experienced growth in direct writings in the current period.

DPW in the **Personal Lines Market** increased 6.9%, or $11.4 billion to $176.4 billion (51.8% of total DPW).

- Private Passenger Auto Liability: +8.0%, or $5.5 billion to $74.2 billion
- Auto Physical Damage: +7.3%, or $3.7 billion to $54.0 billion
- Homeowners Multiple Peril: +7.8%, or $2.2 billion to $48.1 billion

DPW in the **Commercial lines Market** increased 4.0% , or $4.7 billion to $122.8 billion (36.1% of total DPW).

- Other Liability +5.8%, or $1.9 billion to $34.2 billion
- Workers' Compensation writings were relatively flat at $30.7 billion
- Commercial Multiple Peril +2.3%, or $470.4 million to $21.1 billion
- Commercial Auto Liability +12.1%, or $1.7 billion to $15.7 billion

DPW in the **Combined Lines Market** increased 7.8%, or $3.0 billion to $41.2 billion (12.1% of total DPW).

- Allied Lines +6.1%, or $818.6 million to $14.3 billion
- Inland Marine +9.0%, or $1.0 billion to $12.4 billion

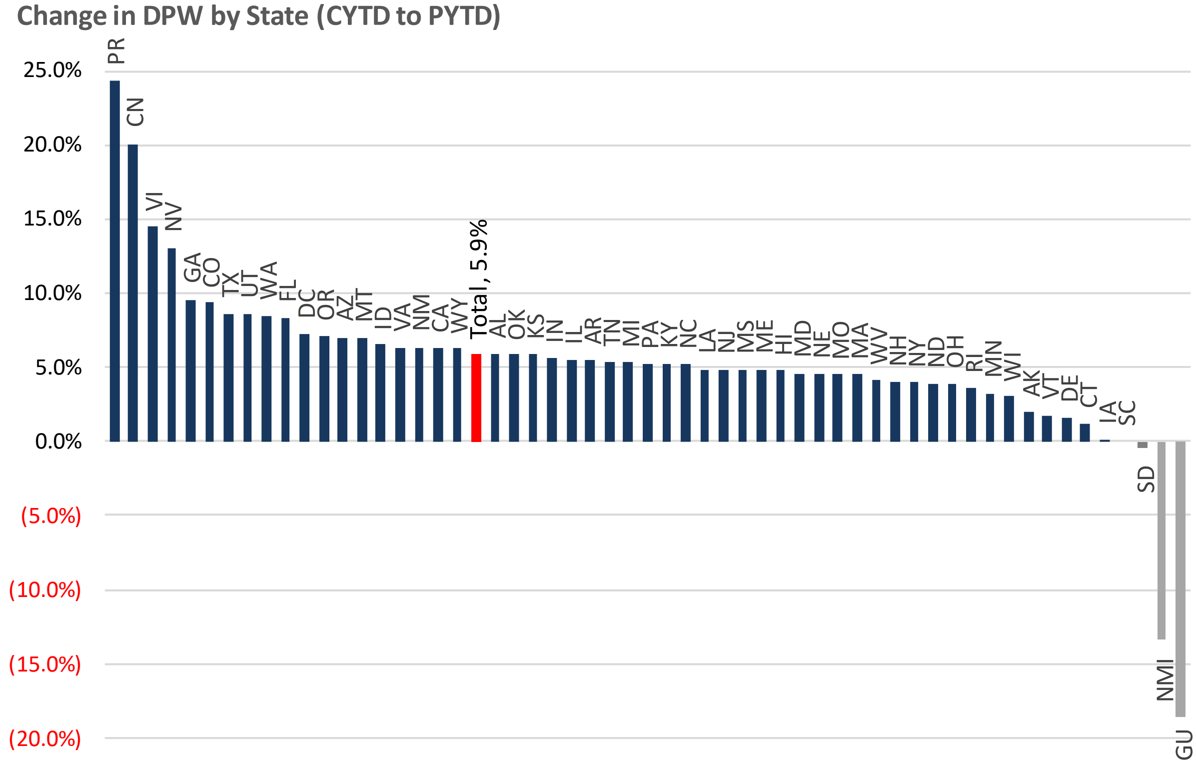
DPW by State, Territories

All states and territories except for South Dakota, Guam, and the Northern Mariana Islands experienced DPW growth compared to the prior year-to-date. On a percentage basis, Puerto Rico, the Virgin Islands, and Nevada experienced the largest growth, all with double-digit increases, on a monetary basis, California, Texas, and Florida were among the premium growth leaders. The chart below, shows the percent change in DPW by state for the current period compared to the prior year period.

Net Premiums Written

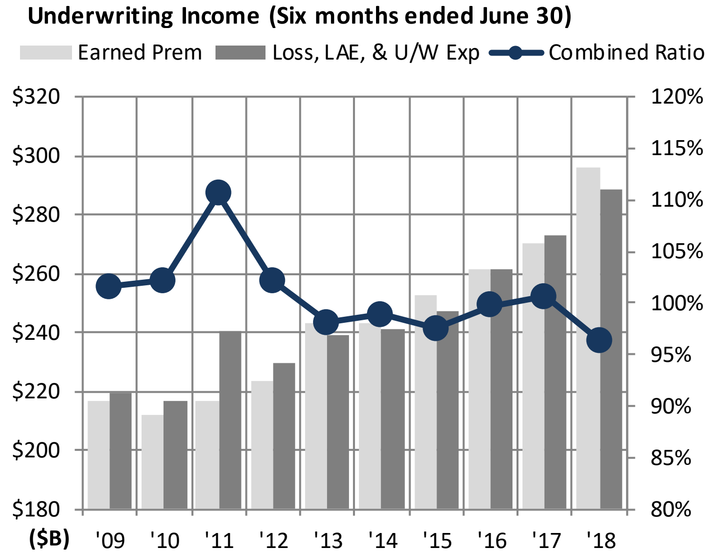
On a net basis, writings increased 12.4% to $315.2 billion, marking the eighth consecutive mid-year of growth.

Change in DPW by State (CYTD to PYTD)



Underwriting Operations

A net underwriting gain of $7.0 billion was recorded, a turnaround compared to a $3.2 billion underwriting loss for the first half of 2017 and a $182 million underwriting loss for the first half of 2016. This turnaround can be primarily attributed to lower catastrophe losses and improving auto. Net premiums earned increased by 10.0% to $297.4 billion while aggregated net losses, LAE, and other underwriting expenses incurred increased 6.1% to $290.0 billion. The combined ratio improved 4.3-points to 96.3%—represented by a 68.9% net loss ratio, a 26.9% expense ratio, and a 0.53% dividend ratio.



Pure Direct Loss Ratio

On a direct basis, the industry's overall pure direct loss ratio (PDLR) improved 2.2-points compared to a year ago to 58.3% as the increase in direct premiums earned of 5.2% outpaced the 1.3% increase in direct losses incurred. Below are the PDLRs by market and by lines of business. It was noted that the PDLR improved in 18 out of 30 lines of business. The Personal Lines Market PDLR was 63.5%, a 3.5-point improvement, the Commercial Lines Market PDLR improved 1.7-points to 53.9%, however, the Combined Lines Market PDLR worsened 1.2-points to 47.7%.

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

Improvement				Deterioration			
Line of Business	Pt. Chg from PYTD	PDLR (CYTD)	PDLR (PYTD)	Line of Business	Pt. Chg from PYTD	PDLR (CYTD)	PDLR (PYTD)
Financial Guaranty	(196.1)-pts	41.4%	237.5%	Aggregate Write-Ins	59.7-pts	43.3%	(16.4%)
International	(78.7)-pts	(7.5%)	71.2%	Excess Workers' Comp	18.9-pts	85.1%	66.3%
Aircraft (all perils)	(24.7)-pts	37.2%	61.8%	Fire	16.1-pts	61.8%	45.7%
Farmowners Multi Peril	(23.8)-pts	54.3%	78.1%	Products Liability	13.2-pts	61.6%	48.4%
Other A&H	(21.1)-pts	108.1%	129.2%	Credit A&H	5.7-pts	22.6%	16.9%
Boiler & Machinery	(15.7)-pts	34.9%	50.5%	Burglary & Theft	5.6-pts	16.4%	10.8%
Fidelity	(8.2)-pts	36.9%	45.2%	Warranty	4.6-pts	59.2%	54.6%
Credit	(7.5)-pts	44.6%	52.1%	Commercial Auto Liab.	3.8-pts	70.2%	66.4%
Mortgage Guaranty	(5.1)-pts	6.0%	11.1%	Medical Professional Liab.	2.7-pts	52.7%	50.0%
Auto Physical Damage	(5.1)-pts	60.2%	65.3%	Commercial Multi Peril	0.2-pts	53.3%	53.1%
Workers' Compensation	(3.8)-pts	50.4%	54.1%	Other Liability	0.1-pts	54.9%	54.8%
Inland Marine	(3.7)-pts	44.5%	48.3%	Surety	0.1-pts	14.6%	13.6%
Allied Lines	(3.5)-pts	52.1%	55.6%				
Private Passenger Auto Liab.	(2.8)-pts	67.4%	70.2%				
Homeowners MP	(2.8)-pts	61.2%	64.0%				
Ocean Marine	(2.2)-pts	46.4%	48.6%				
Earthquake	(1.9)-pts	1.0%	2.8%				
Group A&H	(0.4)-pts	61.9%	62.3%				

Investment Operations

Industry investment profits totaled $34.4 billion for the first half of 2018, up 16.8% from a year earlier. The increase resulted from a 12.9% increase in net investment income earned to $28.9 billion and a 42.7% increase in net realized gains to $5.5 billion. Investment yield (annualized) improved to 3.50% versus 3.28% for the prior year period—the first consecutive mid-year improvement since 2010 that can be attributed to recent rate hikes by the Federal Reserve (Fed).

In June, 2018, the Fed made a quarter-point rate hike, its seventh since December 2015. The Fed's decision to increase rates was primarily due to the low unemployment rate of 3.8% and a rising inflation rate, at 2.0%. In September, the Fed raised rates for the third time in 2018, citing low unemployment, economic growth, and stable inflation. Policymakers indicated a fourth rate hike would come in December and looking ahead to 2019, Fed officials expect at least three more rate hikes.

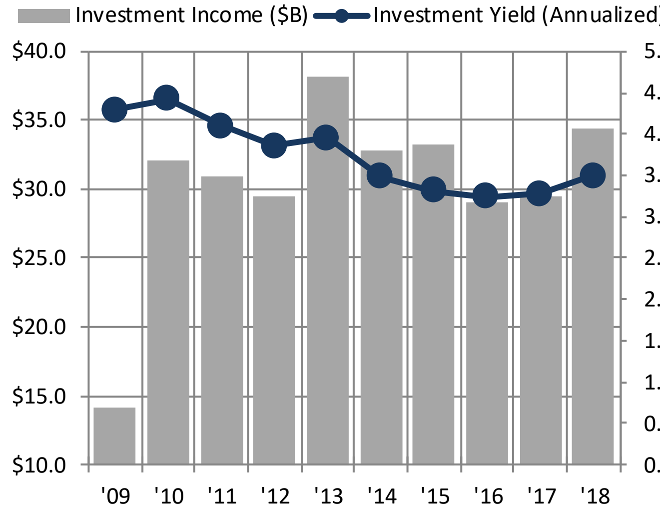
The chart to the right shows the industry's cash and invested assets allocation. Bonds comprised the majority of cash and invested assets totaling $1.0 trillion, which equated to 53.0% of total cash and invested assets, followed by unaffiliated common stocks of $323.7 billion (16.8% of total cash and invested assets), and $275.8 billion affiliated common stocks (14.3% of total cash and invested assets).

Net Income

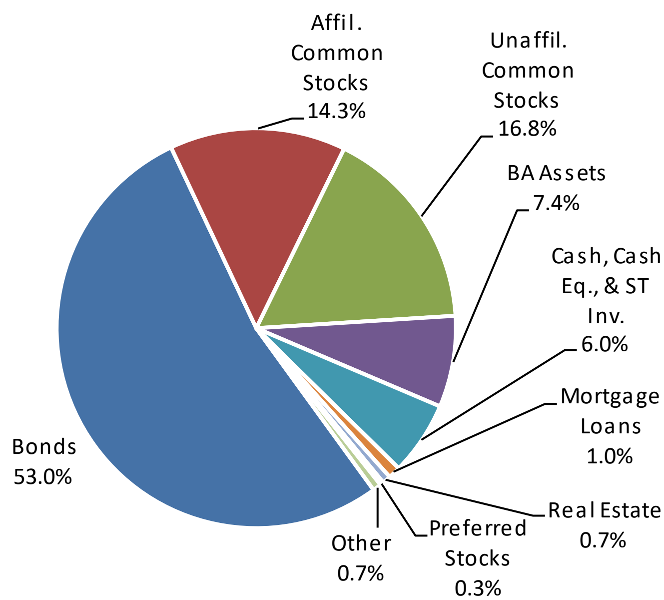
The $7.0 billion underwriting gain combined with $34.4 billion in investment gains, less taxes and dividends to policyholders, resulted in an net income of $35.8 billion for the first half of 2018.

Return on revenue improved 4.9-percentage points to 10.8% compared to 5.9% for the prior year period.

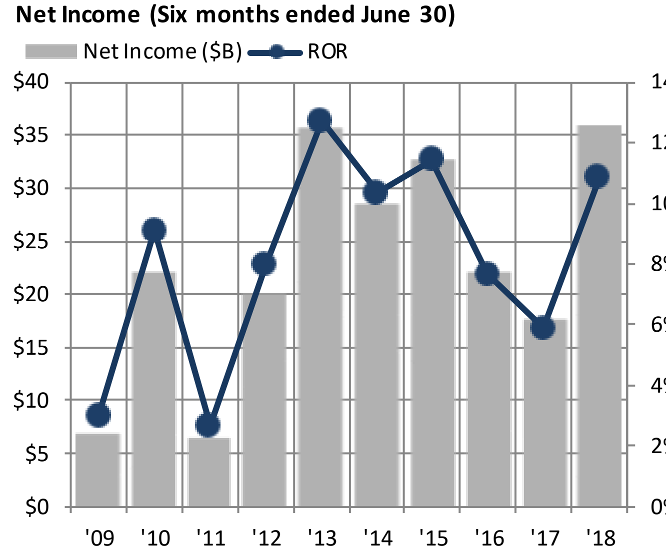
Investment Income (Six months ended June 30)



Cash & Invested Assets



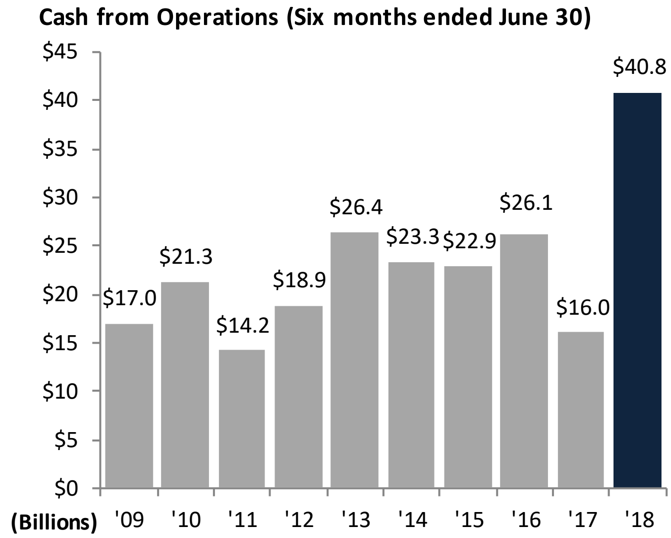
Net Income (Six months ended June 30)



Cash & Liquidity

Net cash provided by operating activities totaled $40.8 billion for the first six months of 2018 compared to $16.0 billion for the same period in 2017. The improvement was attributed to a 12.2% increase in cash inflows stemming from a 13.0% increase in premiums collected net of reinsurance and a 1.3% increase in net investment income, partially offset by a 4.1% increase in cash outflows due to higher benefit and loss related payments and commissions and expenses paid.

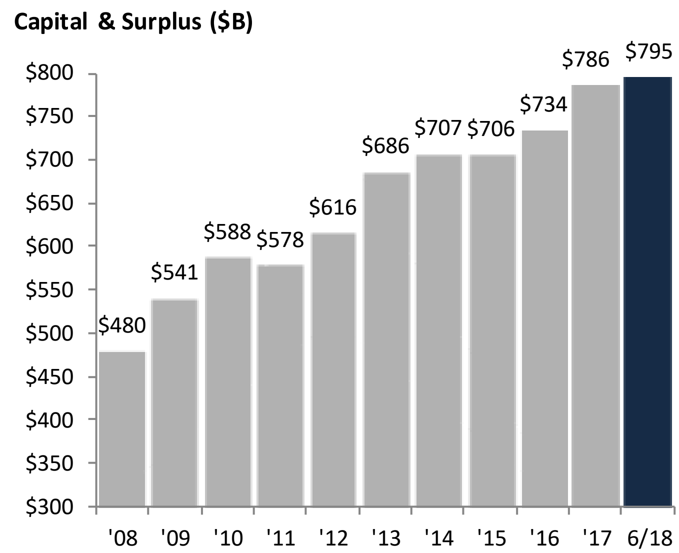
Liquidity was nearly flat with a 0.2-percentage point increase, but remained strong at 78.7% at June 30, 2018 as liquid assets totaled $1.5 trillion and adjusted liabilities totaled $1.2 trillion.



Capital & Surplus

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 1.1% since the prior year-end to a new high of $794.9 billion at June 30, 2018. The increase was mostly attributed to:

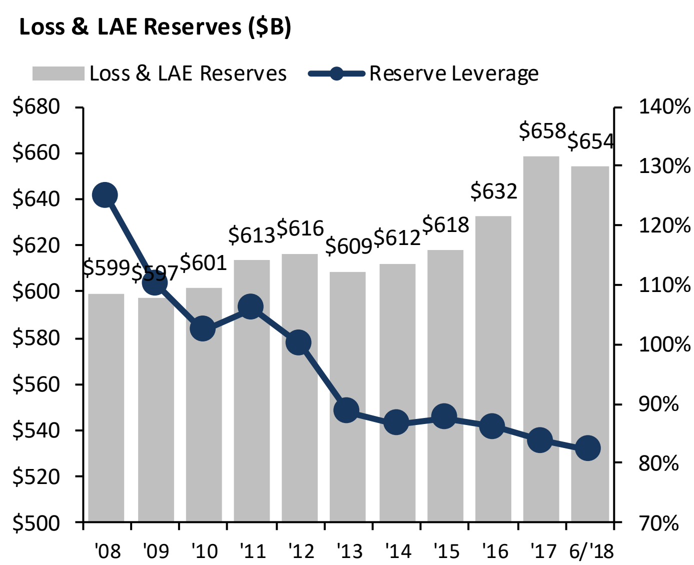
- Net income of $35.8 billion;
- Partially offset by unrealized capital losses of $3.9 billion; and
- $18.5 billion in stockholder dividends.



Loss & LAE Reserves

Loss and LAE reserves decreased 0.7%, or $4.6 billion since the prior year-end to $653.9 billion at June 30, 2018, whereby $540.2 billion comprised of unpaid losses and $113.7 billion unpaid LAE. Reserve leverage fell 1.5-points to 82.3% compared to 83.8% at year-end 2017.

The trend in net favorable loss reserve development continued with an overall redundancy of $6.9 billion through mid-year, which consisted of a $52.1 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $43.2 billion deficiency in prior year known case loss and LAE reserves.



Title Insurance Industry

Title Industry Results (in millions, except for percent data)

For the six months ended June 30,	YoY Chg.	2018	2017	2016	2015	2014
Direct Premiums Written	0.9%	$7,019	$6,957	$6,428	$5,999	$5,135
Direct Ops.	0.8%	$832	$825	$694	$683	$541
Non-Aff. Agency Ops.	0.2%	$4,354	$4,348	$4,020	$3,575	$3,165
Aff. Agency Ops.	2.7%	$1,833	$1,784	$1,714	$1,740	$1,429
Premiums Earned	1.7%	$6,982	$6,867	$6,357	$5,865	$5,149
Loss & LAE Incurred	5.3%	$306	$291	$304	$322	$402
Operating Exp Incurred	3.0%	$6,739	$6,541	$6,098	$5,681	$4,963
Net Operating Gain/(Loss)	10.9%	$499	$450	$384	$294	$167
Net Inv. Income Earned	(12.2)%	$160	$182	$119	$110	$117
Net Realized Gain/(Loss)	(4.9)%	$13	$14	$159	$8	$(11)
Net Inv. Gain (Loss)	(11.7)%	$174	$196	$277	$118	$106
Net Income	44.6%	$676	$468	$496	$287	$211
Loss Ratio	0.1-pts	4.4%	4.3%	4.8%	5.5%	7.8%
Expense Ratio	(0.9)-pts	96.6%	97.5%	96.0%	96.9%	96.4%
Combined Ratio	(0.9)-pts	100.9%	101.8%	100.7%	102.4%	104.2%
Net Unrealized Gain/(Loss)	NM	$(75)	$35	$46	$58	$110
Net Cash from Operations	(9.0)%	$462	$508	$282	$290	$92

NM=Not Meaningful

Premium

According to the most recent U.S. Census Bureau and the Department of Housing and Urban Development data, new home sales and housing starts were flat at 1.9% through August of this year and down 0.2% YOY. This was reflected in title industry's direct premiums written (DPW) as premiums began to level off in the first half of 2018 compared to the rising trend the industry over the four years. Overall, DPW increased 0.89% to $7 billion and were produced primarily through non-affiliated agency operations (62.0% of total DPW). Almost half of the direct premiums were concentrated in five states, TX, CA, FL, NY, and PA, representing 47.7% of the total. Per the National Association of Realtors, rising home prices are expected to level out as low inventory and higher interest rates will reduce demand.

Profitability

The title industry reported a net operating gain of $498.7 million for the first half of 2018 compared to a gain of $449.8 million for the same period in 2017 that was produced by 60% of the title insurers. The improvement was primarily due to increased premiums earned that led to a 1.6% or $121.7 million rise in total operating income to $7.5 billion that outpaced a 1.0% or $72.8 million rise in total operating expenses to $7.0 billion. The combined ratio was flat at 100.9% and was comprised of a 4.4% net loss ratio and a 96.6% expense ratio.

Net investment income earned and net realized gains of $160.2 million and 13.4 million, respectively led to an overall 44.6% improvement in net income of $676.3 million.

Capital & Surplus

Aggregated policyholders' surplus for the Title market rose 5.4% to $5.1 billion at June 30, 2018. The increase was driven by net income of $676.3 million, a $35.3 million decrease in non-admitted assets, and $24.0 million gross paid-in capital. The primary offsetting factors were $302.4 million in stockholder dividends, $97.4 million net unrealized foreign exchange capital losses, and $74.9 million net unrealized capital losses.

Cash & Liquidity

Net cash from operations of $461.8 million was reported by the industry for the first half of 2018, which represented a 9.0% decrease compared to the same period in 2017. The decrease was due to a decline in net investment income and premiums collected net of reinsurance that drove a $28.8 million drop in cash inflows to $7.7 billion. A $17.0 million rise in cash outflows (mostly related to commissions, expenses paid) to $7.3 billion partially offset the declining inflows.

The industry's liquidity remained strong at 65.3% at June 30, 2018 as Liquid assets rose 7.0% to $8.0 billion, while adjusted liabilities rose 4.6% to $5.2 billion.

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