U.S. Property & Casualty Insurance Industry

Industry Overview

Double-digit premium growth, lower catastrophe losses, and an improved auto market were all contributing factors to the turnaround in the U.S. property and casualty underwriting results in 2018 as the industry reported a $3.0 billion underwriting gain versus a $22.5 billion loss last year.

Higher investment income earned contributed to an improvement in the investment yield to 3.26%.

Overall, net income increased 49.5% to $57.9 billion compared to $38.7 billion in 2017. The profit was offset primarily by unrealized capital losses of $40.5 billion, which resulted in a slight decline in policyholders' surplus from $786.0 billion at YE 2017 to $780.0 billion at YE 2018.

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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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net Premiums Written	10.5%	621,142	561,959	537,926	524,006	506,657	486,462	465,743	446,634	432,293	428,349
Net Premiums Earned	9.6%	602,613	549,966	533,236	515,835	497,931	476,792	457,906	442,785	430,556	432,662
Net Losses Incurred	3.4%	365,929	353,958	323,195	296,749	284,934	263,576	283,985	296,241	263,120	259,117
Loss Expenses Incurred	(0.9%)	64,605	65,221	61,829	60,932	58,706	56,951	56,552	55,730	54,312	54,268
Underwriting Expenses	10.8%	167,982	151,652	148,692	145,753	139,846	136,586	130,809	124,768	122,662	120,673
Underwrting Gain (Loss)	NM	2,967	(22,456)	(1,700)	11,453	14,658	20,127	(13,762)	(35,451)	(8,828)	947
Net Loss Ratio	(4.8) pts	71.4%	76.2%	72.2%	69.3%	69.0%	67.2%	74.4%	79.5%	73.7%	72.4%
Expense Ratio	0.0 pts	27.0%	27.0%	27.6%	27.8%	27.6%	28.1%	28.1%	27.9%	28.4%	28.2%
Combined Ratio	(4.8) pts	99.1%	103.9%	100.5%	97.8%	97.3%	96.0%	103.1%	108.0%	102.8%	101.2%
1yr Rsrv Devlp/PY PHS	(0.2) pts	(1.6%)	(1.4%)	(0.7%)	(1.2%)	(1.4%)	(2.7%)	(2.2%)	(2.2%)	(2.0%)	(3.9%)
Net Invmnt. Inc. Earned	8.7%	53,261	48,979	45,539	47,228	46,401	46,594	48,041	49,005	47,620	47,722
Net Realized Gains (Loss)	(45.1%)	10,892	19,833	8,747	10,285	12,006	18,823	9,032	7,790	8,233	(8,183)
Net Invmnt. Gain (Loss)	(6.8%)	64,154	68,812	54,286	57,513	58,407	65,417	57,073	56,795	55,853	39,539
Investment Yield	0.18 pts	3.26%	3.08%	3.01%	3.18%	3.17%	3.34%	3.61%	3.74%	3.72%	3.92%
Total Other Income	NM	1,530	(4,687)	950	1,475	(2,908)	(580)	2,305	2,382	964	767
Net Income[1]	49.5%	57,875	38,718	42,860	56,884	56,439	69,725	36,486	18,292	36,400	30,194
Return on Revenue	2.4 pts	8.7%	6.3%	7.3%	9.9%	10.1%	12.9%	7.1%	3.7%	7.5%	6.4%
December 31,	**YoY Chg**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Policyholders' Surplus[2]	(0.8%)	780,015	786,026	734,026	705,948	706,740	686,135	615,809	578,321	587,606	541,057
Return on Surplus	2.3 pts	7.4%	5.1%	6.0%	8.1%	8.1%	10.7%	6.1%	3.1%	6.5%	5.9%

NM = Not Meaningful

1. Excludes investment income from affiliates. 2. Adjusted to eliminate stacked surplus

Market Conditions

Soft market conditions have gripped the U.S. property and casualty insurance industry since 2007. Some characteristics of a soft market are flat or declining rates, more relaxed underwriting standards, and increased competition among insurers. After record catastrophe losses in 2017 and above average catastrophe losses in 2018, the market is beginning to show signs of a correction in most lines. Beginning in late 2017 and continuing through 2018, the market began to tighten in terms of pricing. According to the most recent market report from The Council of Insurance Agents & Brokers (CIAB), all commercial lines except for Workers' Compensation experienced increases in premium pricing for five consecutive quarters. The CIAB report indicated that commercial premium rates increased by an average of 2.4% in Q4 2018, which included a 7.0% increase in Commercial Auto rates – marking 30 consecutive quarters of rate increases within this line.

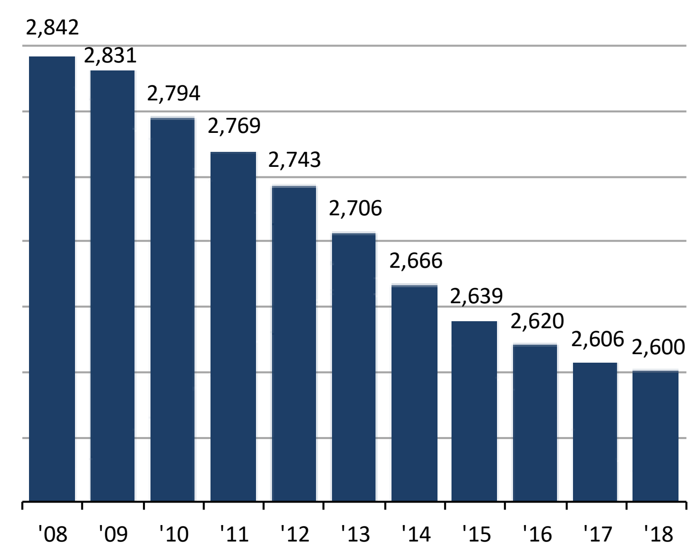
Average Commercial Premium Rates

Line of Business	2016				2017				2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
All Commercial LOB's	(3.7%)	(3.9%)	(3.2%)	(3.3%)	(2.5%)	(2.8%)	(1.3%)	0.3%	1.7%	1.5%	1.6%	2.4%
Commercial Auto	3.6%	2.4%	3.2%	4.4%	5.4%	6.1%	7.3%	7.3%	7.7%	8.2%	7.0%	7.0%
Workers' Comp	(3.0%)	(4.3%)	(2.6%)	(2.9%)	(1.9%)	(2.7%)	(2.3%)	(2.0%)	(2.0%)	(2.9%)	(2.6%)	(3.3%)
Commercial Property	(5.2%)	(6.0%)	(4.5%)	(4.4%)	(3.1%)	(3.6%)	0.9%	2.4%	3.4%	2.2%	2.9%	2.9%
General Liability	(3.2%)	(3.6%)	(3.0%)	(2.6%)	(2.6%)	(2.7%)	(0.8%)	0.1%	0.6%	0.8%	0.8%	1.4%
Umbrella	(2.5%)	(2.8%)	(1.7%)	(1.4%)	(1.1%)	(1.4%)	(0.4%)	0.6%	1.0%	1.5%	1.4%	2.3%

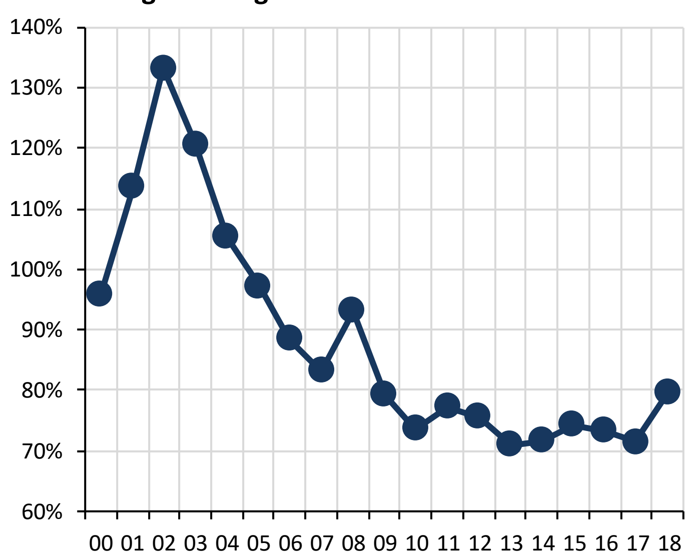
Source: The Council of Insurance Agents & Brokers, *Commercial Property/Casualty Market Index - Q4/2018*

Overall, despite a higher than average year of catastrophe losses, the industry continued its profitable streak for the 17th consecutive year. Insurers continued to retain a portion of these profits, enabling them to write more business or pursue mergers and acquisitions to build market share. The soft market cycle and M&A activity have been the primary drivers in the decline in the number of P&C filers since 2008. In addition, industry capacity remains abundant evidenced by a net writings leverage ratio of 79.6%.

No. of P&C Filers



Net Writings Leverage



Writings

Direct premiums written increased 5.4% YoY to $676.6 billion in 2018 and have increased for 35 consecutive quarters over prior-year quarters. All three markets experienced growth, led by a 6.2% increase in the Combined Lines market, followed by a 6.1% increase in the Personal Lines market and a 4.2% increase in the Commercial Lines market. Assumed premiums written increased 10.2% YoY to $537.5 billion, of which 90.3% was comprised of affiliated assumptions. U.S. intercompany pooling agreements comprised 64.1% of all reinsured business, followed by 24.5% affiliated U.S. non-pooled business. Cessions totaled $592.8 billion, representing a 4.5% increase over the prior year, to arrive at net premiums written of $621.1 billion.

Direct Writings & Profitability by State, Territories, Etc.

State	Direct Premiums Written				Pure Direct Loss Ratio			Losses Incurred		Premiums Earned	
	YoY Chg	2018	2017	2018 Market Share	YoY Chg	2018	2017	2018	2017	2018	2017
AL	5.2%	8,936	8,492	1.32%	0.0 pts	61.3%	61.3%	5,403	5,104	8,814	8,327
AK	2.1%	1,607	1,575	0.24%	3.2 pts	57.2%	54.0%	915	845	1,598	1,564
AR	6.6%	11,686	10,961	1.73%	(0.7) pts	60.1%	60.8%	6,865	6,494	11,419	10,676
AR	5.6%	5,467	5,179	0.81%	6.3 pts	61.0%	54.7%	3,245	2,780	5,323	5,086
CA	6.2%	80,405	75,726	11.88%	(5.6) pts	72.7%	78.3%	56,988	58,112	78,421	74,239
CO	8.5%	13,344	12,297	1.97%	9.7 pts	86.6%	76.9%	11,182	9,157	12,913	11,909
CT	2.2%	8,837	8,646	1.31%	5.8 pts	58.5%	52.7%	5,125	4,494	8,763	8,524
DE	4.8%	2,790	2,662	0.41%	(4.8) pts	50.4%	55.1%	1,421	1,408	2,820	2,553
DC	6.4%	1,979	1,860	0.29%	(6.9) pts	49.3%	56.3%	934	1,036	1,892	1,841
FL	6.8%	53,827	50,392	7.96%	(6.7) pts	73.4%	80.1%	38,632	39,262	52,644	49,006
GA	8.0%	21,549	19,952	3.18%	(1.3) pts	66.5%	67.8%	13,954	13,115	20,993	19,347
HI	4.0%	2,596	2,497	0.38%	(9.5) pts	45.5%	55.0%	1,168	1,367	2,568	2,485
ID	7.6%	2,986	2,777	0.44%	(4.5) pts	62.9%	67.3%	1,817	1,821	2,891	2,704
IL	4.6%	26,047	24,907	3.85%	(0.9) pts	56.7%	57.6%	14,588	14,163	25,731	24,570
IN	4.2%	11,632	11,160	1.72%	(4.9) pts	51.3%	56.2%	5,855	6,190	11,407	11,013
IA	0.6%	6,578	6,536	0.97%	11.4 pts	68.5%	57.1%	4,470	3,691	6,524	6,463
KS	4.1%	6,692	6,428	0.99%	(1.1) pts	53.7%	54.8%	3,504	3,470	6,529	6,334
KY	5.0%	7,822	7,451	1.16%	(2.1) pts	57.4%	59.5%	4,415	4,360	7,688	7,325
LA	4.8%	11,950	11,403	1.77%	0.6 pts	54.2%	53.5%	6,386	6,040	11,792	11,279
ME	3.8%	2,364	2,277	0.35%	(2.5) pts	47.8%	50.4%	1,116	1,129	2,333	2,242
MD	4.3%	12,175	11,669	1.80%	4.5 pts	64.3%	59.7%	7,703	6,822	11,984	11,422
MA	4.1%	15,538	14,926	2.30%	5.0 pts	52.4%	47.4%	8,002	6,951	15,271	14,653
MI	4.1%	19,964	19,173	2.95%	1.4 pts	66.4%	65.0%	13,032	12,262	19,636	18,863
MN	2.7%	11,901	11,586	1.76%	(6.8) pts	54.5%	61.3%	6,376	6,981	11,696	11,380
MS	4.2%	5,398	5,179	0.80%	(2.3) pts	53.7%	56.0%	2,849	2,863	5,305	5,112
MO	4.0%	12,048	11,581	1.78%	(8.4) pts	55.9%	64.3%	6,607	7,301	11,813	11,356
MT	6.5%	2,560	2,403	0.38%	(3.7) pts	55.9%	59.6%	1,395	1,410	2,494	2,365
NE	3.6%	5,015	4,842	0.74%	(15.9) pts	53.9%	69.8%	2,662	3,340	4,941	4,785
NV	11.5%	5,737	5,145	0.85%	8.5 pts	73.7%	65.2%	4,065	3,247	5,514	4,983
NH	2.4%	2,499	2,441	0.37%	(0.8) pts	50.7%	51.5%	1,258	1,244	2,482	2,413
NJ	4.2%	22,113	21,225	3.27%	4.0 pts	59.5%	55.5%	12,958	11,651	21,796	20,997
NM	7.1%	3,528	3,295	0.52%	1.5 pts	66.0%	64.5%	2,274	2,084	3,444	3,230
NY	4.4%	48,352	46,331	7.15%	1.7 pts	58.5%	56.8%	27,791	25,982	47,482	45,731
NC	5.0%	16,474	15,683	2.43%	22.2 pts	77.4%	55.2%	12,503	8,496	16,144	15,383
ND	1.7%	2,565	2,521	0.38%	(5.0) pts	47.7%	52.7%	1,213	1,324	2,543	2,511
OH	3.8%	17,119	16,491	2.53%	(1.1) pts	49.7%	50.8%	8,360	8,252	16,827	16,254
OK	5.0%	8,345	7,949	1.23%	(1.9) pts	49.5%	51.3%	4,043	4,050	8,174	7,889
OR	6.4%	7,397	6,951	1.09%	(11.2) pts	48.8%	59.9%	3,526	4,085	7,232	6,818
PA	4.1%	25,324	24,316	3.74%	5.5 pts	58.7%	53.2%	14,590	12,777	24,862	24,032
RI	3.6%	2,483	2,397	0.37%	7.7 pts	59.4%	51.7%	1,439	1,215	2,423	2,350
SC	6.6%	10,176	9,550	1.50%	(5.1) pts	56.3%	61.4%	5,611	5,708	9,964	9,296
SD	0.7%	2,436	2,421	0.36%	(1.3) pts	56.4%	57.7%	1,357	1,392	2,405	2,412
TN	4.8%	11,910	11,366	1.76%	(8.6) pts	50.7%	59.3%	5,875	6,625	11,585	11,173
TX	7.8%	58,711	54,449	8.68%	(40.7) pts	54.7%	95.4%	31,187	50,726	56,986	53,170
UT	7.8%	5,054	4,691	0.75%	1.4 pts	55.2%	53.8%	2,703	2,428	4,901	4,517
VT	1.9%	1,463	1,436	0.22%	3.9 pts	43.7%	39.7%	634	565	1,453	1,420
VA	4.9%	14,204	13,538	2.10%	1.6 pts	59.8%	58.1%	8,305	7,724	13,899	13,292
WA	8.0%	12,845	11,893	1.90%	(3.5) pts	56.0%	59.6%	6,994	6,920	12,483	11,616
WV	3.0%	3,097	3,008	0.46%	5.9 pts	57.2%	51.3%	1,757	1,531	3,071	2,984
WI	2.8%	10,875	10,574	1.61%	1.8 pts	56.6%	54.8%	6,096	5,728	10,775	10,457
WY	5.2%	1,215	1,155	0.18%	14.9 pts	71.7%	56.9%	851	644	1,187	1,133
AS	90.5%	0	0	0.00%	61.0 pts	5.3%	(55.7%)	0	(0)	0	0
GU	3.2%	335	325	0.05%	0.2 pts	63.6%	63.3%	208	199	327	313
PR	(19.7%)	1,416	1,763	0.21%	(493.3) pts	115.8%	609.2%	1,534	10,781	1,325	1,770
VI	18.3%	160	135	0.02%	(432.0) pts	390.2%	822.2%	578	1,129	148	137
MP	1.0%	20	19	0.00%	137.0 pts	175.3%	38.3%	33	7	19	17
Totals	**5.4%**	**676,574**	**641,688**	-	**(5.3) pts**	**61.6%**	**66.9%**	**407,932**	**421,221**	**662,392**	**629,735**

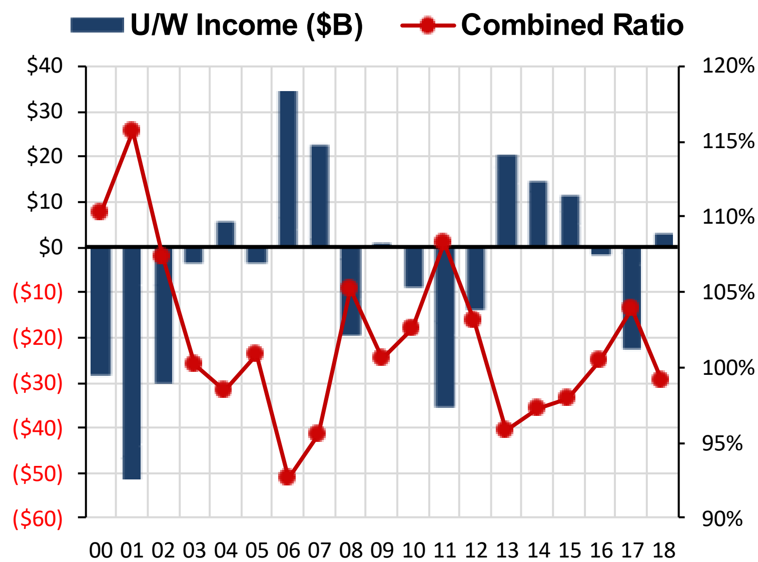
Operating Results

Underwriting Operations

Following net underwriting losses for the past two years, the U.S. property and casualty insurance industry recorded an underwriting profit of $3.0 billion for 2018. The turnaround can be attributed to the following:

- Lower catastrophe losses
- An improved auto market
- Double digit premium growth
- Continued prior-year reserve releases

The above positive factors were partially offset by underperformance in several commercial liability lines, discussed in more detail beginning on page 6.



Catastrophe Losses

Overall, worldwide losses from natural catastrophes amounted to $160 billion, slightly higher than the inflation adjusted average over the past 30 years of $140 billion, but less than half of 2017 losses totaling $350 billion. Insured losses worldwide were $80 billion (more than half was within the U.S.), almost double the inflation adjusted 30 year average of $41 billion but below 2017 insured losses of $140 billion. Although severity was lower, frequency was higher in 2018 with 850 events versus 740 in the prior year.

	2018	2017	Average of the last 10 years (2008-2017)	Average of the last 30 years (1988-2017)
Number of events	850	740	630	500
Overall losses (US$m)	160,000	350,000	190,000	140,000
Insured Losses (US$m)	80,000	140,000	61,000	41,000
Fatalities	10,400	13,000	60,000	53,000

Source: Munich Re NatCatSERVICE

In the U.S., insured losses due to natural disasters totaled $52 billion, down from $78 billion in 2017. Wildfires, heatwaves, and droughts accounted for 34% of U.S. insured losses, the largest of which was the Camp Fire in Paradise, CA which totaled $12.5 billion and was the most expensive worldwide loss in 2018 in terms of overall and insured losses. Tropical cyclones accounted for 30% of 2018 insured losses, followed by severe thunderstorms at 27%, winter storms accounted for 6%, floods, flash floods, earthquakes and other geophysical events accounted for the remainder. The accompanying table shows the top five U.S. events in order of insured losses.

Date	Event	Affected Area	Overall Losses	Insured Losses
8-25 Nov	Wildfire (Camp Fire)	U.S.: CA, Paradise, Chico	16,500	12,500
8-10 Oct	Hurricane Michael	U.S.: (FL, GA, and Carolinas), Cuba	16,000	10,000
10-27 Sept	Hurricane Florence	U.S.: NC, SC, FL, DC, MD, MA, GA	14,000	5,400
8-22 Nov	Wildfire (Woolsey Fire)	U.S.: CA, Thousand Oaks, Oak Oark, Westlake Village, Agoura Hills, West Hills, Simi Valley, Chatsworth, Bell Canyon, Hidden Hills, Malibu, Calabasas	5,200	4,000
18-20 Jun	Hailstorm, severe storm	U.S.: CO, Boulder County, Boulder, Arapahoe County, Aurora, Morgan County, Fort Morgan, Brighton, Dacono, Henderson, Lafayetet, Louisville, Northglenn, UT, South Jordan, Sandy, Cottonwood Heights, Salt Lake City	2,000	1,700

Source: Munich Re NatCatSERVICE U.S. $m

Catastrophe Losses (… continued)

Largest Events of 2018:

Camp Fire—In the fall, California experienced the most damaging wildfires in U.S. history. Drought and strong winds helped fuel the Camp fire which nearly destroyed the town of Paradise in the foothills of the Sierra Nevada. The hilly terrain made access challenging and extinguishing the fire was difficult. The Camp fire caused overall losses of $16.5 billion and insured losses of $12.5 billion making it the costliest natural disaster of 2018. Despite evacuation orders, 86 fatalities occurred.

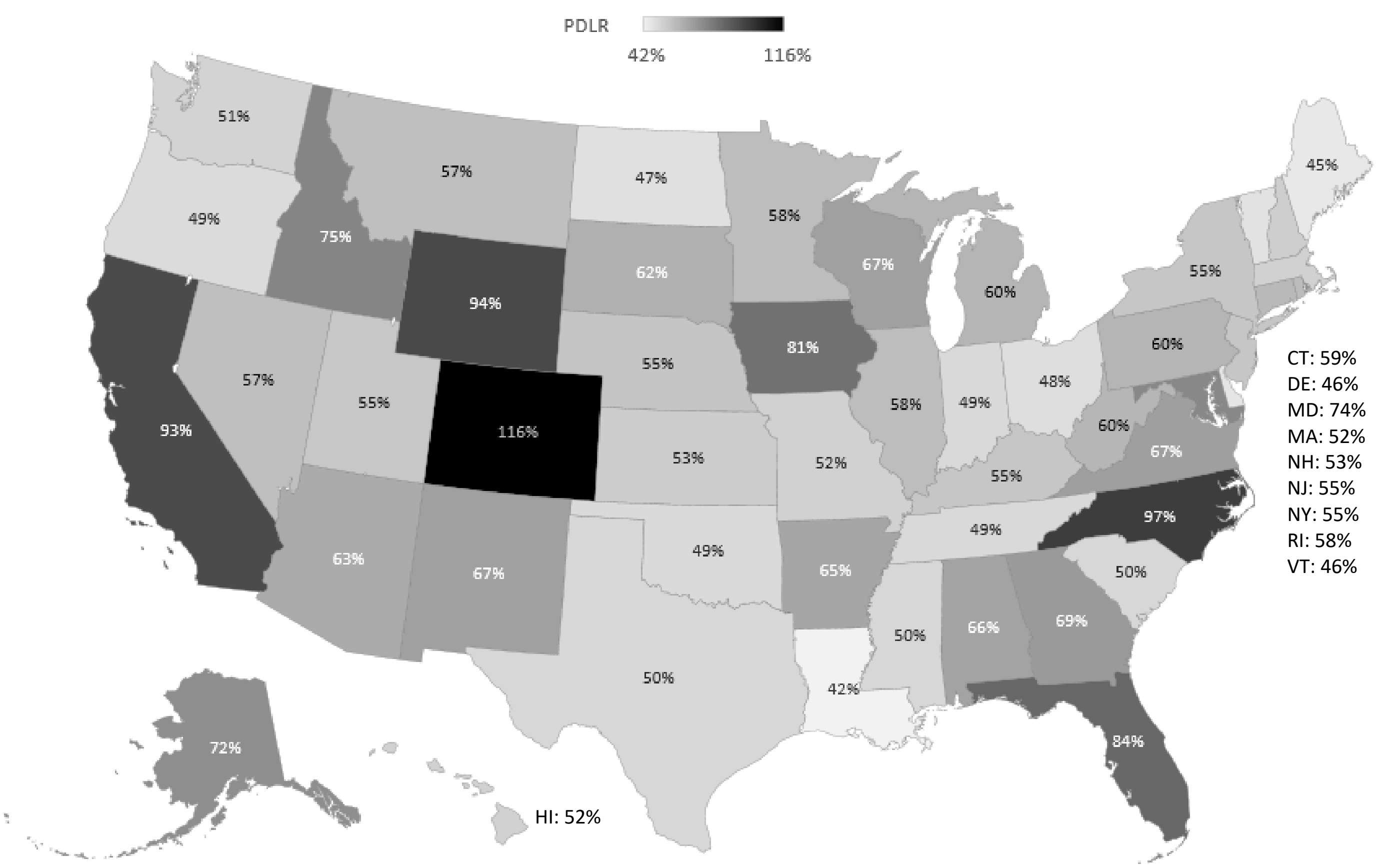
Woolsey Fire—Occurring approximately the same time as the Camp fire, the Woolsey fire destroyed around 1,600 homes in Malibu, CA. The higher value of the homes involved contributed to overall losses of $5.2 billion, and $4.0 billion in insured losses.

Hurricane Michael—Reached the U.S. mainland on October 10th in the Florida panhandle. It is ranked as the fourth strongest storm to ever hit the U.S. with wind speeds up to 155 mph. Overall losses were $16 billion and insured losses reached $10 billion as storm damage was widespread between personal and commercial sectors.

Hurricane Florence—Occurred three weeks prior to Hurricane Michael reaching the U.S. mainland on the North Carolina coast. Most of the losses occurred due to flooding from torrential rains, as a result, the share of insured losses was smaller as insurance against flood damage is much less widespread than windstorm coverage. Overall losses were $14 billion and estimated insured losses were $5 billion.

Source: Münchener Rückversicherungs-Gesellschaft. (2019, January 8). *Natural catastrophe review: Extreme storms, wildfires and droughts cause heavy nat cat losses in 2018* [Press release]. Retrieved from https://www.munichre.com/en/media-relations/publications/press-releases/2019/2019-01-08-press-release/index.html

The accompanying chart shows the impact the largest 2018 events had on a state-by-state basis by looking at the pure direct loss ratio for property lines of business* by state. Overall, the PDLR across all states for property lines was 65%.



*Fire, Allied Lines, Crop, Flood, Farmowners, Comm Multi-Peril (Non-Liab), Ocean marine, Inland marine, EQ, Auto Phys. Dmg., Aircraft

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Personal Lines Market Performance (53.0% of total NPW)

Private Passenger Auto liability (23.3% of total NPW)

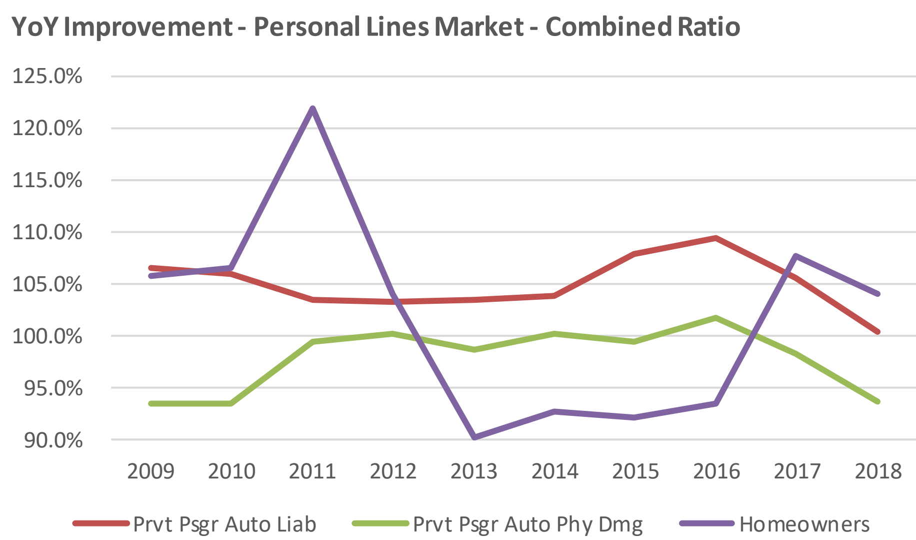
After underperforming for several years, the auto liability market, particularly personal auto, began to turn a corner in 2018, which was one of the contributing factors to the improvement in underwriting results. The combined ratio for this line improved 5.1-percentage points to 100.4%. Net premiums earned increased 8.3% for this line while net losses and LAE increased at a lesser rate of 1.9% and other underwriting expenses increased 7.2%. Overall, the net underwriting loss for this line was $587.6 million, a significant improvement compared to a $7.3 billion loss for 2017.

Homeowners Multiple-Peril (14.3% of total NPW)

Net premiums earned increased 5.5% while net losses and LAE incurred increased 0.7%, resulting in a 3.7-point improvement in the combined ratio to 104.1%. The combined ratio for this line surpassed the 100 percent threshold for the first time since 2012 largely due to losses related to the hurricanes and wildfires.

Private Passenger Auto Physical Damage (15.5% of total NPW)

This line of business has been profitable seven out of the last ten years, including the last two years. Net premiums earned increased 9.7% to $94.6 million in 2018 compared to $86.2 million in 2017 while net losses and LAE incurred increased only 2.7%, resulting in a 4.8-point improvement in the net loss ratio to 70.4%. Overall, the combined ratio improved 4.5-points to 93.6% in 2018.



Commercial Lines Market Performance (36.6% of total NPW)

Workers' Compensation (8.2% of total NPW)

Since 2015, the combined ratio for this line has been below the 100 percent profitability threshold, including a 6.0-point improvement in 2018 to 86.2%. The strong profitability has resulted in rate decreases as noted in the CIAB report discussed on page 2.

Commercial Auto Liability (4.4% of total NPW)

Net premiums grew by 17.8% YoY as companies have implemented rate increases in this line for 30 consecutive quarters. Despite rate increases, the unprofitable trend continued as net losses and LAE incurred totaled $21.3 billion, while net premiums earned totaled $25.5 billion, resulting in a net loss ratio of 83.5%. The 2018 combined ratio was 111.7% and has surpassed the 100 percent threshold in each of the last eight years. According to the Council of Insurance Agents and Brokers Q4/2018 Commercial Property/Casualty Market Index, the reasons for Commercial Auto's difficulties were numerous. Increased congestion on the roads, distracted driving, and road quality all led to an increased number of accidents, resulting in more frequent payouts. Additionally, those payouts were often more severe due to the higher value of modern vehicles and increased litigation costs.

Commercial Lines Market Performance (continued)

Other Liability—Occurrence (6.0% of total NPW)

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. Coverage is for events that occur during a policy term. Net premiums earned increased 19.4% YoY to $34.5 billion in 2018 while net losses and LAE incurred increased 25.7% resulting in a net loss ratio of 74.7%. Adding a 30.4% expense ratio resulted in an overall combined ratio of 105.2%. The combined ratio has exceeded the 100 percent threshold for five consecutive years and eight out of the last ten years.

Commercial Multiple Peril (6.0% of total NPW)

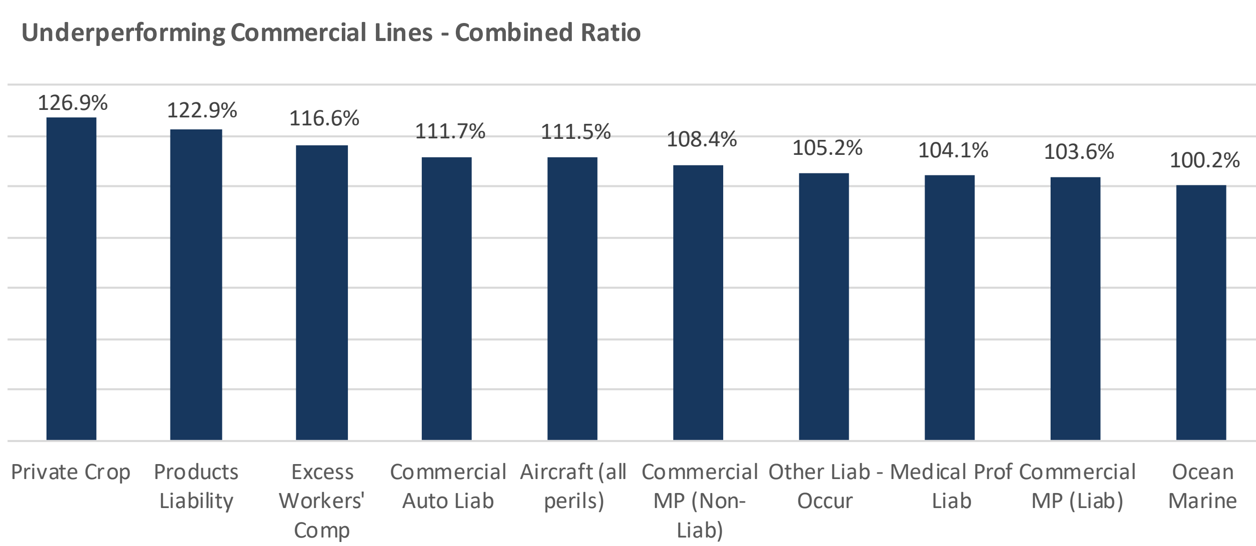
This line packages two or more coverages, protecting businesses from various property risk exposures. This is the most popular type of commercial package insurance policy in the U.S. property and casualty market and covers a variety of business types. The combined ratio for the non-liability portion improved 3.4-points but exceeded the 100 percent threshold at 108.4%. Prior to 2017 this line of business was profitable for four consecutive years. The liability portion covers businesses for general liability risks. Net premiums earned totaled $14.6 billion while losses and LAE incurred totaled $10.2 billion resulting in a net loss ratio of 69.6%. Adding an expense ratio of 34.0% resulted in a combined ratio of 103.6%. The combined ratio has exceeded the 100 percent threshold for three consecutive years.

Medical Professional Liability (1.35% of total NPW)

Medical professional liability insurance, also known as medical malpractice insurance, protects physicians and other health care professionals from liability associated with wrongful practices resulting in bodily injury, medical expenses and property damage as well as defense costs related to such claims. Coverage is also provided for personal injury, therefore the complexity involved in discovering negligence results in a higher percentage of premium going toward defense and cost containment expenses. Net premiums earned in 2018 totaled $8.4 billion while net losses and LAE incurred totaled $6.4 billion, resulting in a net loss ratio of 75.3%. After considering an expense ratio of 25.9% and a dividend ratio of 2.9%, the combined ratio totaled 104.1%, a 2.8-point YoY deterioration. As noted in the table on page 8, the combined ratio for this line has surpassed the 100 percent threshold for the last five years.

Underperforming Commercial Lines of Business

The following chart shows commercial lines of business with combined ratios over 100%.



Combined Ratio by Lines of Business

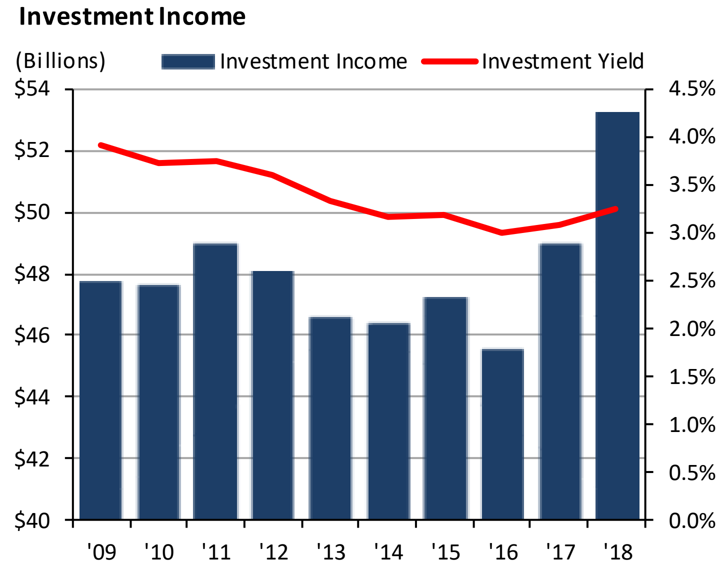
Lines of Business	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Aggregate Write-ins	81.1%	41.2%	83.5%	83.7%	125.4%	64.0%	56.3%	75.7%	80.7%	81.9%
Aircraft (all perils)	111.5%	109.2%	113.1%	100.7%	89.1%	99.5%	98.5%	102.6%	94.1%	94.5%
Allied Lines	130.7%	182.0%	96.6%	88.1%	85.4%	85.3%	129.9%	122.3%	92.0%	85.4%
Boiler and Machinery	86.3%	76.5%	78.8%	69.9%	76.1%	72.4%	80.1%	74.8%	71.6%	71.7%
Burglary and Theft	78.1%	49.1%	46.2%	61.4%	59.9%	42.2%	58.6%	61.6%	69.4%	59.4%
Commercial Auto Liab	111.7%	113.5%	113.2%	111.3%	103.6%	107.5%	106.3%	101.1%	97.1%	100.2%
Commercial Auto Phy Dmg	97.0%	104.2%	102.0%	100.9%	103.1%	104.9%	109.1%	112.1%	101.6%	97.0%
Commercial MP (Liab)	103.6%	101.6%	105.6%	99.3%	103.5%	103.0%	94.1%	102.0%	96.1%	94.2%
Commercial MP (Non-Liab)	108.4%	111.8%	99.1%	91.9%	97.1%	94.4%	114.6%	120.0%	103.2%	99.0%
Credit	93.6%	90.8%	92.1%	76.5%	74.7%	74.9%	91.3%	94.3%	127.3%	140.8%
Credit A & H	84.8%	128.3%	120.9%	42.3%	45.2%	45.0%	49.5%	38.3%	87.8%	84.1%
Earthquake	44.6%	43.6%	33.9%	28.5%	34.3%	30.5%	36.7%	57.0%	45.7%	32.5%
Excess Workers' Comp	116.6%	123.6%	109.2%	112.0%	107.4%	69.3%	151.4%	133.9%	51.4%	35.1%
Farmowners MP	97.0%	105.7%	91.1%	89.9%	95.4%	94.0%	99.5%	117.2%	108.2%	107.7%
Fidelity	73.4%	74.0%	78.4%	77.2%	92.7%	92.9%	99.3%	102.0%	96.5%	105.3%
Financial Guaranty	130.5%	320.1%	177.2%	99.2%	91.3%	(3.4%)	181.2%	218.8%	227.3%	101.2%
Fire	110.8%	119.2%	92.3%	85.1%	85.4%	78.5%	86.5%	92.9%	79.9%	79.4%
Group A & H	90.7%	90.5%	98.4%	100.1%	96.9%	99.9%	94.1%	99.2%	96.2%	93.0%
Homeowners MP	104.1%	107.8%	93.4%	92.1%	92.7%	90.3%	104.0%	122.0%	106.6%	105.7%
Inland Marine	86.4%	90.0%	84.0%	83.9%	83.5%	83.8%	96.2%	97.1%	86.5%	89.1%
International	145.3%	130.7%	144.3%	2.0%	116.7%	92.6%	91.5%	97.7%	181.2%	146.9%
Medical Prof Liab	104.1%	101.4%	106.4%	102.3%	104.7%	89.4%	93.3%	88.0%	88.7%	85.5%
Mortgage Guaranty	29.2%	40.4%	49.8%	58.1%	70.2%	98.0%	189.7%	219.1%	199.0%	202.4%
Multiple Peril Crop	85.0%	84.1%	81.7%	99.9%	104.9%	103.3%	104.0%	90.6%	73.9%	79.7%
Ocean Marine	100.2%	110.5%	95.8%	94.7%	91.2%	98.1%	109.2%	100.5%	96.2%	91.4%
Other A & H	149.6%	133.1%	128.6%	132.0%	126.6%	132.5%	133.0%	119.5%	135.8%	122.1%
Other Liab - Claims-Made	91.0%	98.9%	103.4%	98.6%	88.1%	97.4%	100.4%	100.8%	96.6%	96.5%
Other Liab - Occur	105.2%	101.6%	114.9%	103.3%	101.5%	96.4%	104.9%	92.8%	115.1%	112.1%
Private Crop	126.9%	107.5%	122.3%	146.2%	138.8%	NA	NA	NA	NA	NA
Private flood	55.0%	186.2%	93.1%	NA	NA	NA	NA	NA	NA	NA
Products Liability	122.9%	102.1%	119.8%	130.6%	134.4%	155.2%	102.2%	158.8%	157.3%	123.0%
Prvt Psgr Auto Liab	100.4%	105.5%	109.5%	107.9%	103.8%	103.5%	103.2%	103.6%	105.9%	106.6%
Prvt Psgr Auto Phy Dmg	93.6%	98.2%	101.7%	99.5%	100.3%	98.7%	100.2%	99.5%	93.4%	93.4%
Reinsurance-Nonproportional	109.1%	122.8%	78.6%	72.3%	63.2%	72.9%	79.8%	114.4%	79.5%	69.4%
Surety	70.9%	72.2%	72.4%	73.8%	69.3%	72.7%	76.8%	72.8%	70.7%	79.5%
Warranty	95.4%	90.6%	88.8%	107.9%	93.5%	104.2%	99.5%	97.1%	107.2%	97.4%
Workers' Comp	86.2%	92.2%	95.4%	95.9%	102.6%	98.8%	111.2%	118.4%	118.3%	111.3%

NA = Not Available

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

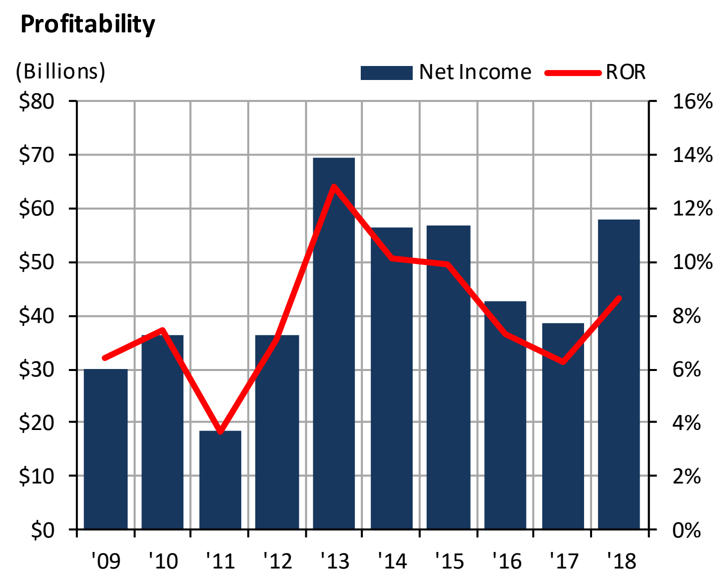
Investment Operations

Investment income was $64.2 billion, 6.8% lower compared to $68.8 billion in 2017. The decline was associated with a 45.1% YoY decrease in realized capital gains to $10.9 billion, primarily due to losses on unaffiliated common stocks. Net investment income increased 8.7% YoY to $53.3 billion with the majority derived from unaffiliated bonds. Following several years of declines, the industry average investment yield improved slightly for the second consecutive year to 3.26%.



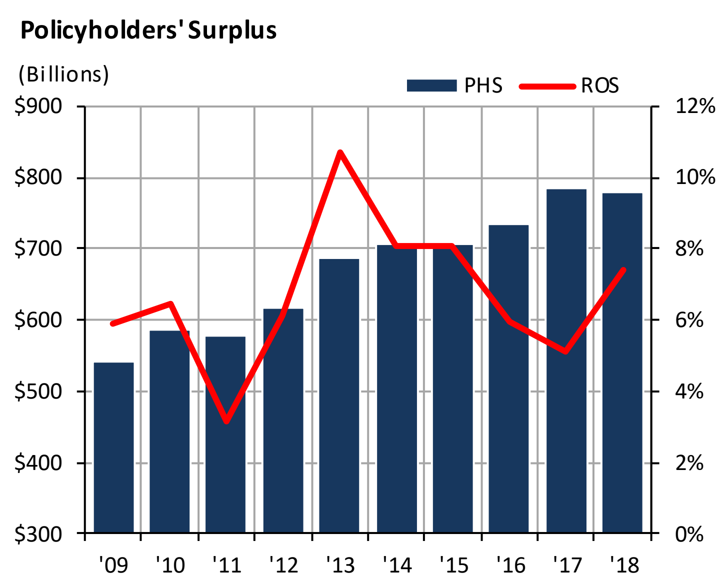
Net Income

Improved underwriting results combined with solid investment income resulted in a net profit of $57.9 billion, a 49.5% improvement compared to prior year's profit of $38.7 billion. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized capital gains (losses)—was higher at 8.7% versus 6.3% for the prior year marking the first YoY improvement since 2013.



Capital and Surplus

Policyholders' surplus (adjusted for affiliated investments) decreased 0.8% to $780.0 billion at December 31, 2018. The decrease was primarily attributable to unrealized capital losses of $40.5 billion and $38.6 billion in dividends to stockholders that offset net income. Return on surplus—a measure of net income to average policyholders' surplus—was 7.4% for the year, up 2.3-percentage points from 5.1% recorded in the prior year.



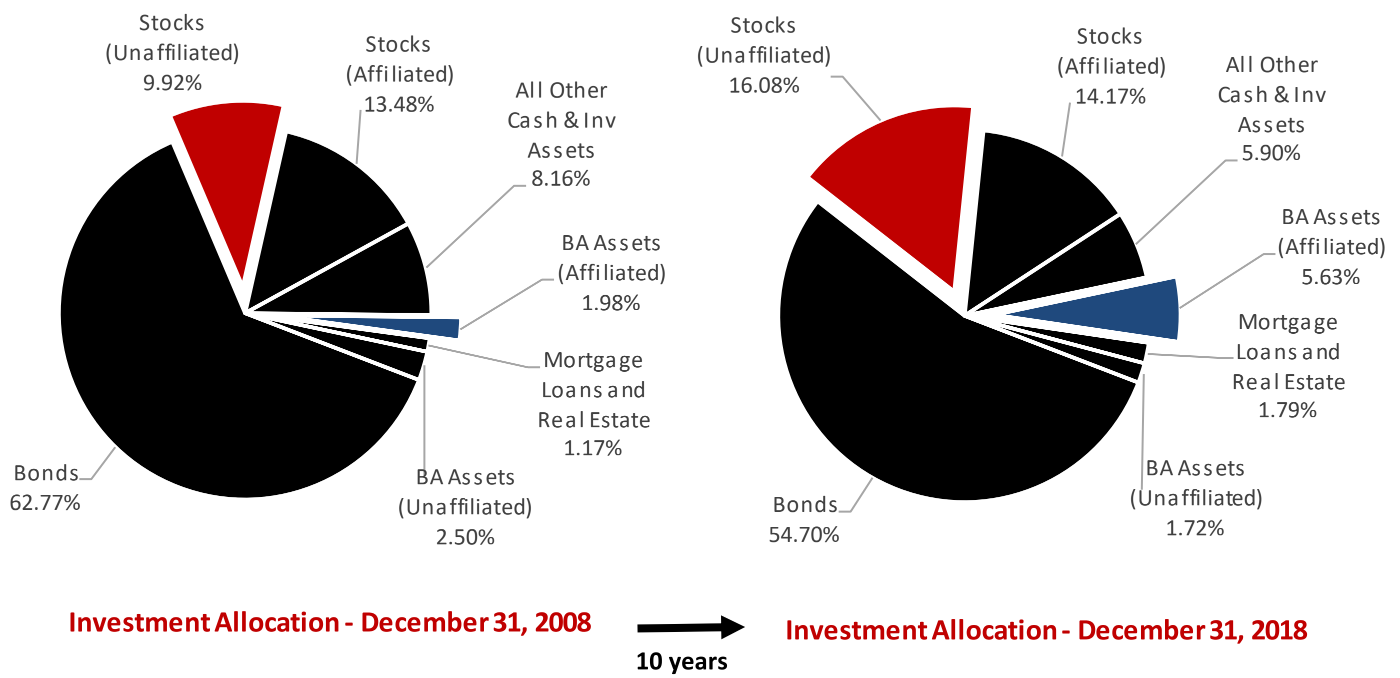
Cash & Liquidity

Net cash provided by operating activities totaled $79.8 billion in 2018, a 57.2% increase compared to $50.8 billion in 2017. The increase was primarily due to a $54.2 billion, or 9.8% increase in premiums collected net of reinsurance to $605.6 billion partially offset by a 4.2% increase in benefit and loss related payments.

Liquidity remained strong at 79.7%, 1.9-points higher than last year. Adjusted liabilities were 2.4% higher while liquid assets remained relatively unchanged.

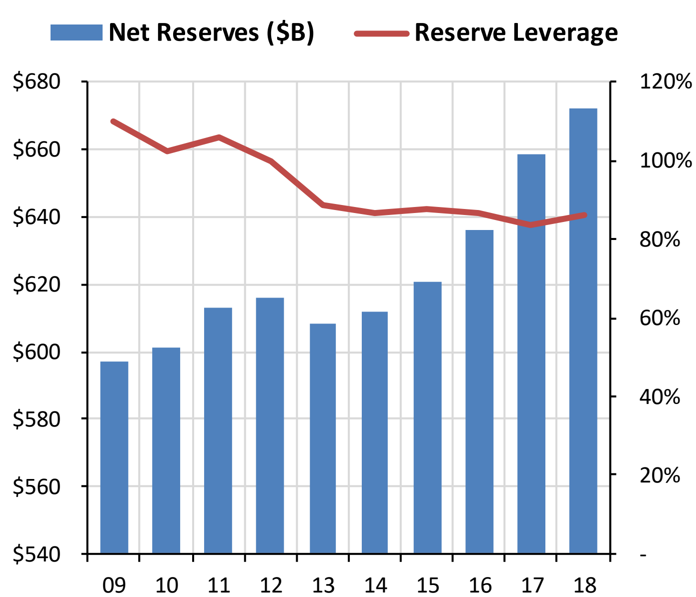
Cash & Liquidity (...continued)

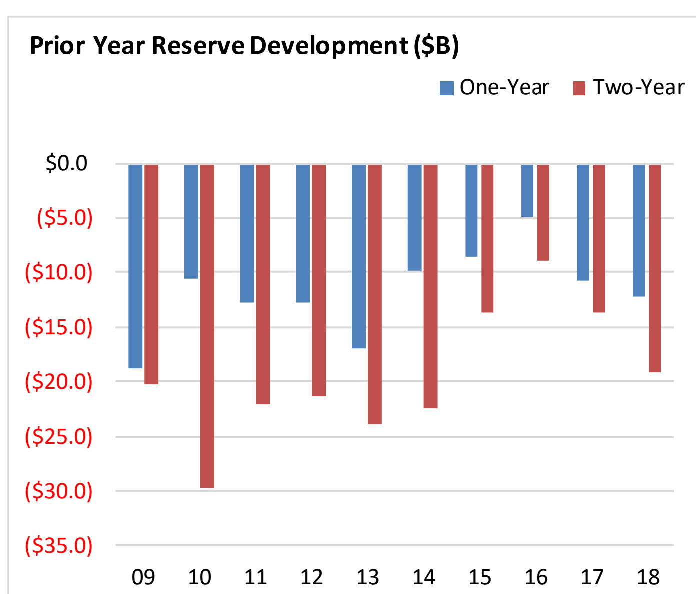
Cash and invested assets have grown 39.7% since 2008, however, many insurers have shifted their investment strategy as less liquid assets (e.g., other long-term invested assets) have grown at a faster pace in recent years than liquid assets (bond holdings). Since 2008, investments in bonds grew 21.8% while other long-term investments grew 297.8%, unaffiliated stocks grew 126.4%, and mortgage loans on real estate grew 113.3%.



Reserves

Net loss and LAE reserves increased 2.0% YoY to $672.4 billion, of which $557.0 billion was unpaid losses and $115.4 billion unpaid LAE. The increase in reserves was entirely attributed to current year incurred, as the trend of prior year reserve releases continued with $19.2 billion in favorable prior year reserve development in 2018. In 2014, the trend of prior year reserve releases began to slow, however, a sharp increase occurred in 2017 and 2018. The favorable development in the current year primarily stemmed from five groups, two of which were large one-off items, including a loss portfolio transfer to an offshore affiliate.



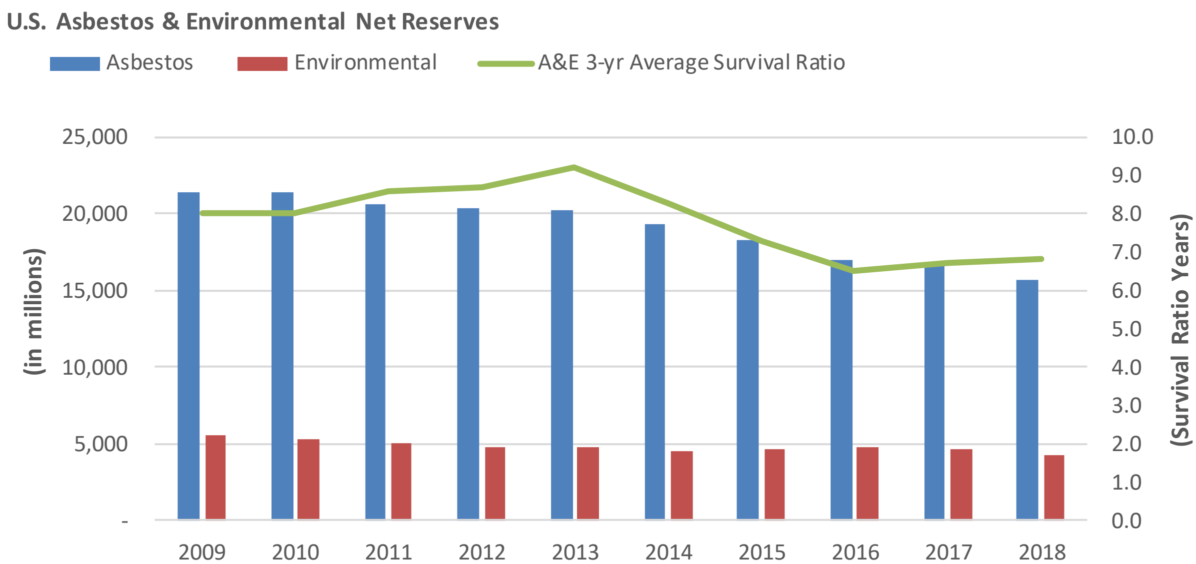


Reserves (...continued)

Although the industry reported favorable prior year development, adverse development occurred within the Other Liability—Occurrence (primarily 2015 and 2016 accident years) and commercial auto liability (primarily accident years 2013 – 2016) totaling $2.1 billion and $1.8 billion, respectively. Development in Commercial Auto Liability was due to increased accidents and higher payouts attributable to the factors discussed on page 6.

Asbestos and Environmental Reserves

Gross asbestos and environmental (A&E) reserves decreased 4.0% to $40.1 billion at December 31, 2018 from $41.8 billion a year ago. On a net basis, A&E reserves decreased 6.7% YoY to $20.0 billion, as net claim payments totaled $2.7 billion while net incurred losses and LAE totaled $1.2 billion in 2018, a significant decline compared to $2.3 billion last year. 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 6.8 years compared to 6.7 years last year.



Asbestos

The industry continues to be faced with uncertainties surrounding the ultimate costs of asbestos liabilities. The quantification of asbestos liabilities of insurance and reinsurance companies is extremely difficult. This is due to a variety of factors, including, but not limited to the following:

- Identifying the source of contamination
- Potential harm to claimants and the legal environment have resulted in high litigation costs
- Disease latency—there are often long periods between asbestos-exposure and symptoms of disease

Despite these uncertainties, net asbestos-related reserves decreased 6.5% YoY to $15.7 billion at December 31, 2018 and have decreased for the eighth consecutive year. In 2018, 10 of the top 30 insurers in terms of net asbestos-related reserves, reported an increase in net incurred losses. Overall, net incurred losses decreased 52.1% over the prior year to $804 million in 2018 from $1.7 billion in 2017. Net claim payments increased 4.5% to $1.9 billion versus $1.8 billion a year ago. As a result, there was a slight improvement in the three-year average survival ratio to 7.0 years from 6.6 years, but remains far below the 10-year high of 10.5 years at year-end 2013.

Environmental

Following increases in 2015 and 2016, net environmental reserves decreased for the second consecutive year. In the current year, net environmental reserves decreased 7.5% YoY to $4.3 billion at December 31, 2018, as net claim payments totaling $786 million exceeded net incurred losses totaling $410 million. Compared to ten years ago, net environmental reserves have decreased by 23%. The three-year average survival ratio for environmental-related reserves fell to 6.0 years from 6.7 years last year.

Professional Reinsurance Market

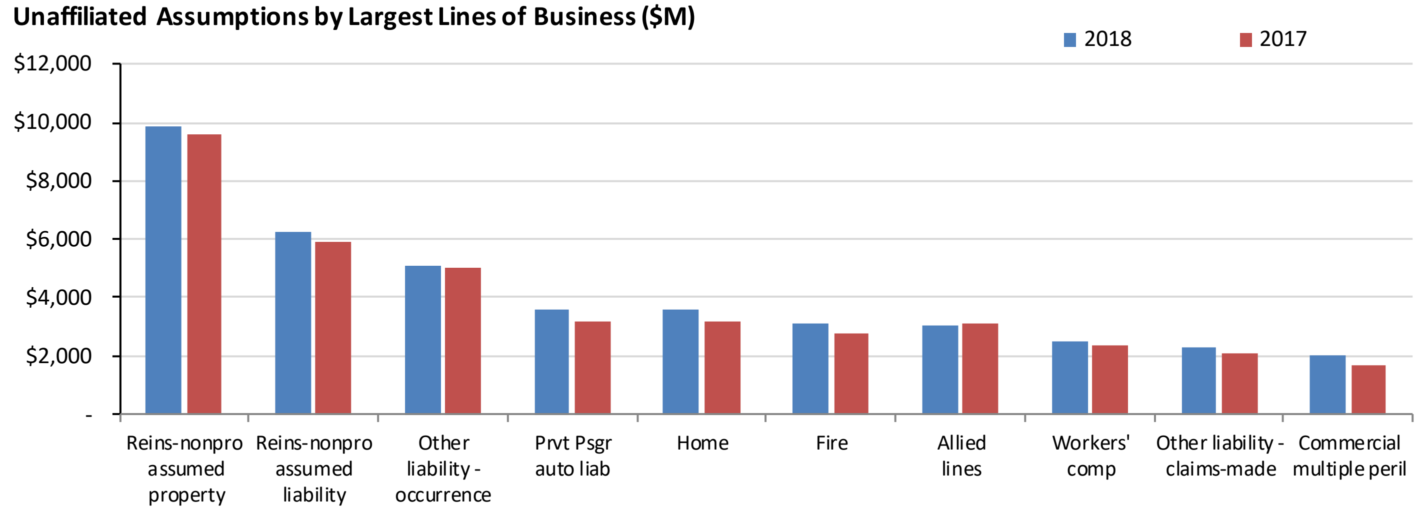
Professional Reinsurers Financial Snapshot

For the year ended December 31,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Unaffiliated APW	39,369	37,342	36,487	36,432	35,869	34,514	35,883	35,028	30,944	33,227
Net Premiums Written	102,364	78,930	73,687	78,029	86,744	64,407	55,497	51,266	48,508	47,184
Net Premiums Earned	96,362	73,471	72,117	75,213	82,367	60,604	54,927	50,030	48,428	45,180
Net Losses Incurred	64,632	52,949	43,799	42,049	47,613	30,774	36,730	36,334	29,849	26,955
Loss Expenses Incurred	9,165	7,197	6,953	7,815	8,903	6,009	5,916	5,078	6,394	4,972
Underwriting Expenses	27,725	21,196	20,816	21,631	21,801	19,205	15,688	14,092	13,471	12,935
Underwrting Gain (Loss)	(5,065)	(7,867)	528	3,697	4,096	4,619	(3,405)	(5,499)	(1,136)	347
Net Loss Ratio	76.6%	81.9%	70.4%	66.3%	68.6%	60.7%	77.6%	82.8%	74.8%	70.7%
Expense Ratio	27.1%	26.9%	28.2%	27.7%	25.1%	29.8%	28.3%	27.5%	27.8%	27.4%
Combined Ratio	103.7%	108.7%	98.6%	94.1%	93.8%	90.6%	106.0%	110.3%	102.7%	98.1%
Net Invmnt. Inc. Earned	17,021	12,587	11,794	13,087	19,503	15,699	13,846	12,620	14,105	10,782
Net Realized Gains (Loss)	2,423	2,875	2,443	2,142	3,219	10,081	521	1,807	3,013	(1,863)
Net Invmnt. Gain (Loss)	19,443	15,462	14,237	15,229	22,722	25,780	14,368	14,427	17,118	8,919
Investment Profit Ratio	20.2%	21.0%	19.7%	20.2%	27.6%	42.5%	26.2%	28.8%	35.3%	19.7%
Net Income	13,584	1,055	13,283	16,010	21,120	26,625	9,617	8,169	14,124	7,302
Return on Revenue	11.7%	1.2%	15.4%	17.7%	20.1%	30.8%	13.9%	12.7%	21.5%	13.5%

(in millions, except for percent)

The professional reinsurance market includes reinsurers that collectively comprised the top 75% of the industry's unaffiliated assumptions. In 2018, 30 reinsurers represented this market. Assumed premiums written in 2018 totaled $537.5 billion for the overall industry, of which $485.2 billion were affiliated and $52.3 billion were unaffiliated assumptions. With respect unaffiliated assumptions, $39.4 billion was assumed by the 30 professional reinsurers. As seen in the above table, the professional reinsurance market experienced a net underwriting loss of $5.1 billion in 2018, while the overall industry experienced a $3.0 billion underwriting gain, as a significant portion of the catastrophe losses were reinsured. The combined ratio improved slightly to 103.7% as the net loss ratio improved in 2018 to 76.6%. The 2018 underwriting loss was offset by a net investment profit of $19.4 billion, resulting in a net profit of $13.6 billion. Return on revenue was 11.7%, a sharp improvement compared to 1.2% in 2017.

Unaffiliated Assumptions by Largest Lines of Business ($M)



Emerging Topics

Private Flood Insurance

Federal banking regulators finalized the rules on private flood insurance, which will be effective July 1, 2019, which will require lenders to accept private flood insurance policies that meet the same requirements as a National Flood Insurance Policy to satisfy the mandatory purchase agreement. The rule requires insurers to certify that their private flood insurance policies meet certain requirements set forth in the Biggert-Waters Flood Insurance Reform Act of 2012, in order for banks to accept such policies. The final rule would also provide banks the option to accept private flood policies that did not meet the mandatory acceptance requirements set forth in the Biggert-Waters statute, subject to certain conditions.

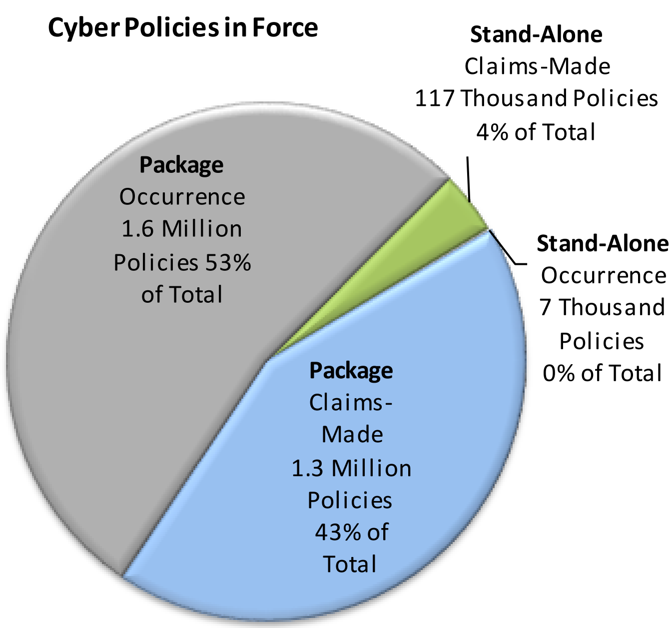
Some additional details on the final rule include:

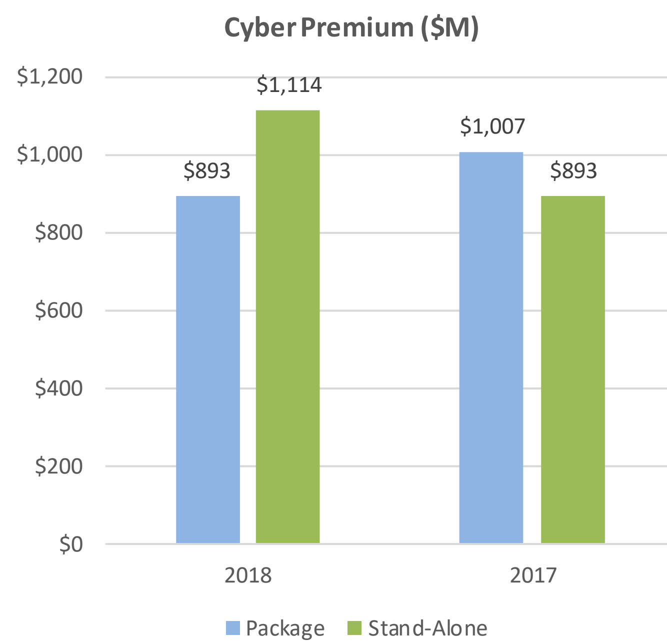
- Mandatory Acceptance (insurer self-certification) - If a policy or endorsement states: "This policy meets the definition of private flood insurances contained in 42 USC 4102a(b)(7) and the corresponding regulation", Lenders could rely upon an insurer self-certification that the policy meets the federal regulatory definition.
- Discretionary Acceptance - Maintains lenders' ability to accept private flood insurance that does not meet the federal definition on a discretionary basis, so long as the policy provides sufficient protection to the loan in accordance to the lenders' general safety and soundness requirements.

Lenders would have to document their conclusion in writing for federal regulators regarding sufficiency of protection.

Cyber

Cybersecurity insurance premiums totaled $2.0 billion in 2018, a slight increase compared to $1.9 billion in 2017. 96% of policies were part of a package with 1.6 million occurrence policies and 1.3 million claims-made policies. In 2018, Cyber package policy direct premiums were $898.2 million, a slight decrease compared to $1.0 billion in 2017. Stand-alone direct premiums increased 24.7% in 2018 to $1.1 billion.





Title Industry Overview

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

For the year ended December 31,	YoY Chg	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net Premiums Written	0.8%	$14,731	$14,617	$14,133	$12,964	$11,156	$12,569	$11,246	$9,249	$9,438	$9,286
Title Premiums Earned	1.5%	$14,678	$14,461	$13,976	$12,787	$11,389	$12,490	$11,233	$9,364	$9,403	$9,468
Loss & LAE Incurred	2.4%	$644	$629	$687	$672	$742	$825	$851	$1,102	$1,105	$1,024
Operating Exp. Incurred	0.3%	$14,137	$14,089	$13,357	$12,163	$10,659	$11,919	$10,881	$9,300	$9,597	$9,693
Net Operating Gain/(Loss)	24.6%	$1,103	$885	$871	$831	$799	$686	$498	($22)	($214)	($133)
Net Loss Ratio	0.1 pts	4.4%	4.3%	4.9%	5.3%	6.5%	6.6%	7.6%	11.8%	11.8%	10.8%
Expense Ratio	(0.4) pts	96.0%	96.4%	94.6%	93.9%	95.7%	94.8%	96.7%	100.9%	101.7%	104.4%
Combined Ratio	(0.4) pts	100.4%	100.8%	99.5%	99.1%	102.2%	101.5%	104.3%	112.7%	113.4%	115.2%
Net Invmnt. Inc. Earned	3.4%	$360	$348	$276	$326	$261	$274	$321	$346	$334	$517
Net Realized Gains (Loss)	NM	$(75)	$142	$162	$9	$1	$26	$36	$34	($80)	($50)
Net Invmnt. Gain (Loss)	(41.8%)	$285	$489	$437	$336	$262	$299	$356	$380	$254	$467
Net Income	21.1%	$1,230	$1,016	$961	$871	$855	$769	$719	$309	$31	$351
Net Cash From Ops	20.8%	$1,441	$1,193	$1,081	$1,039	$698	$706	$844	$167	$202	$188
Liquidity Ratio	(1.0) pts	66.9%	67.9%	70.6%	70.4%	73.3%	76.1%	81.7%	96.3%	98.3%	102.6%
December 31,	**YoY Chg**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Policyholders' Surplus	2.3%	$4,909	$4,818	$4,800	$4,357	$4,251	$4,122	$3,842	$2,950	$2,984	$3,201

Premium

Title premiums are produced almost entirely on a direct basis, either through direct operations or agency operations (mostly non-affiliated with 62.2% of total DPW). According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development March 2019 statistics, new home sales were up 3.0% YoY contributing to a an increase in title direct premiums to $14.8 billion. Nearly half of direct premiums were concentrated in five states (TX, CA, FL, NY, and PA), which represented 47.3% of total DPW. With less than 1% reinsurance utilized in the industry, net premiums written totaled $14.7 billion and net retention was flat at 99.5%. The industry's net writings leverage ratio declined 3.3 percentage points to 300.1%.

Profitability

The title industry reported a net operating gain for the seventh consecutive year with a gain of $1.1 billion for the year compared to the prior year gain of $884.8 million. While total operating income increased 1.8% or $279.4 million to $15.9 billion, total operating expenses were nearly flat at $14.8 billion. The combined ratio was 100.4% and was comprised of a 4.4% loss ratio and a 96.0% expense ratio.

Net investment income earned increased 3.4% to $359.5 million less net realized capital losses of $(74.5) million which resulted in a net investment gain of $285.0 million for the year, compared to a gain of $489.3 million in the prior year.

Ultimately, the industry reported a 21.1% or $214.8 million YoY improvement in net income to $1.2 billion in 2018 compared to net income of $1.0 billion in 2017.

Capital & Surplus

Industry aggregated policyholders' surplus increased 2.3% million to $4.9 billion. The gain was mainly driven by net income of $1.2 billion and paid in capital of $78.0 million. The increase was partly offset by dividends paid to stockholders of $977.2 million, a $95.7 million increase in nonadmitted assets, unrealized capital losses of $62.6 million, and net unrealized foreign exchange capital losses of $18.3 million. Return on surplus, a measure of net income to average policyholders' surplus, was 25.3%.

Cash & Liquidity

Net cash from operations increased 20.7% to $1.4 billion compared to $1.2 billion in the prior year. The improvement was due to a $202.2 million increase in cash inflows to $16.3 billion that resulted from a 1.0% rise in net premiums collected net of reinsurance and a 6.1% rise in miscellaneous income. Cash outflows declined $45.4 million due to a $60.7 million decline in federal and foreign income taxes to $270.2 million, and a $29.1 million decline in benefit and loss related payments to 577.5 million.

The industry's liquidity ratio improved 1.7 percentage points to 66.9%, as adjusted liabilities declined $10.7 million to $5.4 billion and liquid assets increased $191.1 million to $8.1 billion.

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