



Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

The U.S. P&C insurance industry recorded a net profit of \$27 billion for the first half of 2020, a 23% decline compared to the prior year period due to lower investment returns resulting from the impact COVID had on the financial markets. This was particularly evident by sizeable unrealized capital losses recorded, which ultimately drove the 6% decline in policyholders' surplus. Conversely, underwriting results were better than any mid-year period over the last ten years.

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MARKET CONDITIONS

Premium Pricing

Market conditions continue to shift towards hard market territory following recent years of volatile underwriting results primarily driven by an increase in the frequency and severity of large-scale loss events. Uncertainty over the underwriting impact from Covid19, along with what may become a record-breaking year of catastrophe losses resulting from above-average hurricane activity and wildfires, will lead to more underwriting discipline and potentially result in further hardening of the market. Signs of market hardening were provided in The Council of Insurance Agents & Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2020 (April 1 – June 30)*, where it was indicated that commercial premium pricing increased by an average of 1.08% during the 1st consecutive quarter of increased premiums. The CIAB also reported that all commercial lines, including Workers' Compensation, experienced slight significant premium increases as shown in the table below:

Other takeaways from the recent CIAB report include

- 55% of survey respondents said they saw a decrease in Commercial Auto claims
- 94% of survey respondents said they saw an increase in Business Interruption claims due to Covid19 and premium pricing for this coverage increased by 9.7%

Other factors steering the industry closer to a hard market are stable moderate price increases in personal insurance products and firming prices in the professional reinsurance market, particularly catastrophe reinsurance coverage where reported rate increases have ranged from 5% to over 20% in the past year

Capacity

Overall, it's far too early to determine the impact 2020 events will have on market conditions. Insurers' bottom line, but



PREMIUM

Direct premium written (DPW) in the property & casualty insurance industry increased 2.1% to \$362.3 billion in the first half of 2020 compared to \$354.9 billion for the same period in 2019. Prior to the second quarter of 2020, direct writings grew for 40 consecutive quarters over the same prior quarters, but that trend stalled largely due to lower premiums in the Personal Auto Liability line mainly due to the effects from COVID. For example, many companies implemented temporary changes including relaxed due dates for premium payments, extended grace periods for cancellations, waived late fees, and made other accommodations to prevent lapses in coverage.

DPW in the Personal Lines Market totaled \$184.9 billion for the first half of 2020, a slight increase compared to \$183.3 billion for the same period last year. Despite the lower premium volume in second quarter, Private Passenger Auto Liability premiums were slightly lower due to the factors mentioned above while Private Passenger Auto Collision and Physical Damage premiums were flat compared to last year. The trend of growth in Homeowners premiums continued with a

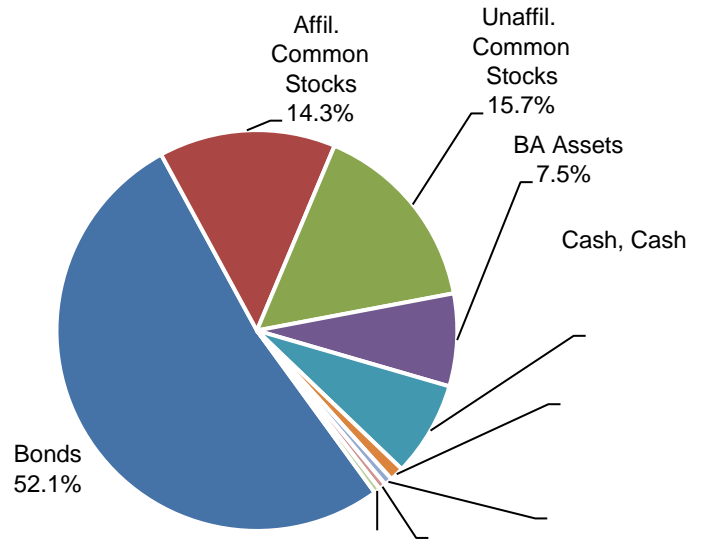


UNDERWRITING OPERATIONS

The P&C Industry reported a net underwriting gain for the third consecutive mid-year period with an \$8.9 billion gain for the current period, 37.7% higher than the \$6.5 billion gain reported for the same period last year. Although an active thunderstorm season resulted in elevated catastrophe losses, sharp improvement in the personal lines auto segment more than offset these losses and drove the overall positive operating results. The improvement in personal auto is attributed to

consistent with maximum employment and inflation reaches 2%.

The chart on the right shows the industry's cash and invested asset allocation. Bonds comprised the majority of cash and invested assets totaling \$1.1 trillion, which equated to 52.1% of total cash and invested assets, followed by unaffiliated common stocks of \$32.1 billion (15.7% of total cash and invested assets), and \$18 billion in affiliated common stocks (14.3% of total cash and invested assets).



NET INCOME

Net Income totaled \$26.8 billion for the first half of 2020, 22.8% lower compared to the prior year period. An underwriting gain of \$8.9 billion and investment gain of \$7.9 billion were partially offset by federal and foreign income taxes incurred and higher policyholder dividends, which combined were \$4.0 billion higher compared to the prior year period. Return on revenue was 2 points lower compared to the prior year period at 7.8%.

CASH & LIQUIDITY

Net cash provided by operating activities totaled \$45.9 billion for the first six months of 2020 compared to \$37.2 billion for the same period in 2019. The increase stemmed primarily from a 2.0% increase in premiums collected net of reinsurance to \$315.7 billion which was aided by a 5.4% decrease in benefit and loss related payments to \$170.2 billion and partially offset by higher commissions and expenses and dividends paid to policyholders.

The industry liquidity ratio was slightly higher compared to the prior year end but remained solid at 78.9%. An increase in liquid assets of 4.3% was outpaced by the 5.9% increase in adjusted liabilities.



LOOKING AHEAD

COVID-19 - Many insurers experienced investment losses as a result of the impact on financial markets due to the pandemic. While equity markets have rebounded since the first quarter, there remains a significant degree of uncertainty over what lies ahead. Specifically, the timing of a vaccine is uncertain.



Title Insurance Industry

PREMIUM

Business in the U.S. title insurance industry reflected the continued strength in the housing market as direct premiums written (DPW) increased 17% to \$8.1 billion for the first half of 2020 and were produced primarily through non-affiliated agency operations representing (64.0%



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