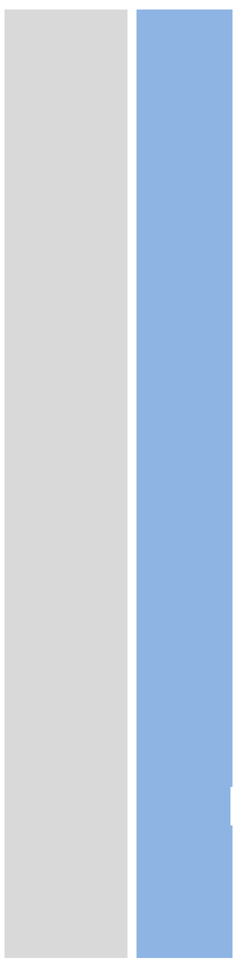
Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

Net income in the U.S. Property & Casualty Insurance Industry fell 14.5% to $34.0 billion in the first half of 2022, driven by underwriting losses compared to gains last year. This was largely due to significant deterioration in auto results, as auto physical damage was impacted by inflation and supply chain issues, and social inflation continued to impact co cag tial inoccni ima is22.3 (5ic)-v(the prior year end to $989.8 billion.

While the long trend of industry profits continued into the first operating results in the second half of the year will certainly be im economic inflation, the stock market decline, social inflation, catastrophes.



MARKET CONDITIONS

Premium Pricing

While hard market conditions existed in the U.S. Property & Casualty in most lines of business, there appear to be signs of stabilization as premium increases in most commercial lines began to slow in 2020Q4. According to the Council of Insurance Agents and Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2022 (April 1 – June 30)*, Q2 2022 was the nineteenth consecutive quarter of increased commercial premiums with respondents reporting an average increase of 7.1% across all account sizes, compared to 6.9% in Q1. Despite the small increase, respondents indicated the market continued to stabilize due to price moderation and additional competition.

The report also noted that the insurance industry is feeling the impact of inflation primarily in the commercial property and commercial auto lines of business. Inflation has led to higher valuations for buildings and increasing costs for building materials and auto parts, which has resulted in higher insuring values and rates. Respondents reported an 8.3% average increase in commercial property premium rates and an average 7.2% increase in commercial auto, which has now seen forty-four consecutive quarters of premium rate increases

Capacity

Insurer capacity to write new business remains abundant as evidenced by a net writings leverage ratio -0.002 T8w [(re)71hsif anss.2a(c)9 43 9 5[(fo)-17.76(i)-1-2.9

deterioration in the net loss ratio to 73.5%. The 10.2% growth in net premiums written outpaced the 6.4% increase in underwriting expenses, resulting in a small improvement in the expense ratio to 25.7%. Overall, the combined ratio deteriorated 2.8-points to 99.7% deti/A 0.002 T3 rmf086.1W(0 Td (]4 a05TJ -I%49-0.00-Tf 65..1 (a)2.8 (tA9 (.)-s-4T002

INVESTMENT OPERATIONS

Investmentgains

NET INCOME

Despite the unfavorable underwriting results, the industry still recorded a profit of $34.0 billion in the first half of 2022 due to the previously mentioned increase in investment gains.

Return on revenue (RoR) of 8.4% reflected the solid profitability but was 2.3-points lower compared to last year's RoR of 10.7% as net income was lower in relation to net premiums earned and investment gains

CASH FLOW & LIQUIDITY

Net cash provided by operating activities decreased 25.6% compared to the same period in 2021 to $47.8 billion. The deterioration stemmed from a 24.7% increase in benefit and loss related payments related to higher loss costs primarily in the personal auto and commercial liability markets. Partially offsetting the increase in loss payments was a 7.1% increase in premiums collected net of reinsurance and the previously mentioned increase in investment income.

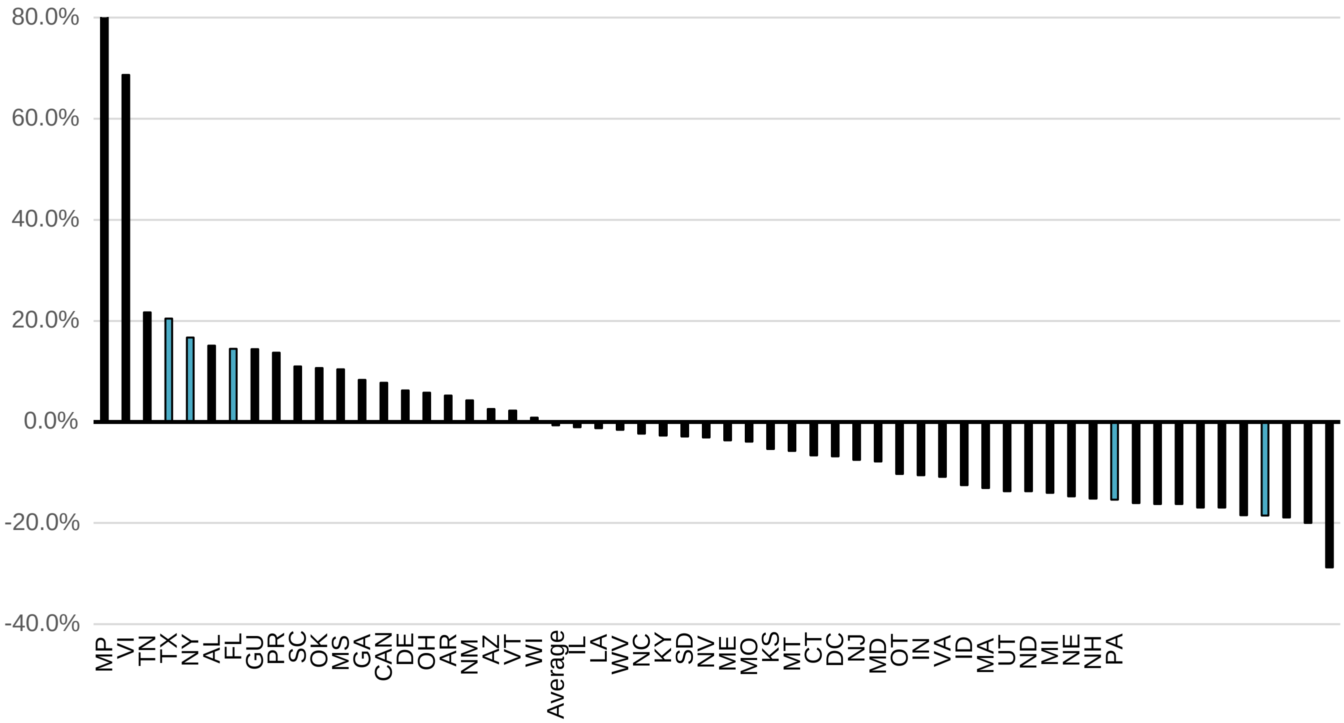
Title Industry

Title Industry Results

(32.2%) in DPW, while the second largest insurance group wrote $2.8 billion (23.5%) in DPW. The third largest group wrote $1.8 billion (15.1%) in DPW. Insurers without a group wrote $1.7 billion (13.9%) in DPW.

The five largest states by DPW (TX, CA, FL, NY, and PA) remained the same as mid-year 2021. Together, these five states (shown in light grey below) represented 48.0% of the market during the first half of 2022, up 1.7 points from the prior year end. Only three of these states experienced growth over mid-year 2021, with Pennsylvania decreasing 15.4% and California decreasing 18.5% compared to the prior-year period. Twenty-one locales experienced DPW growth compared to the prior mid-year period while thirty-six saw a decrease, with 20 seeing a decrease of greater than 10%. The overall average (below) was a slight decrease in DPW of 0.6%.

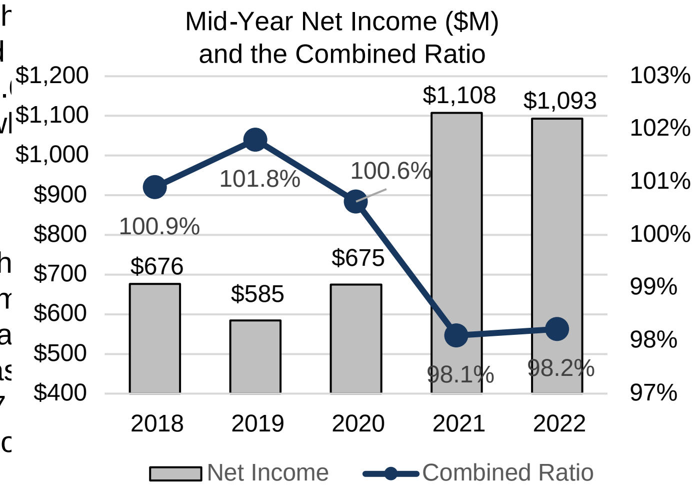
Four states saw change in mid-year DPW exceeding 20%. Alaska (-20.0%) and Oregon (-28.7%) saw decreases of over 20%, while Texas (20.5%) and Tennessee (21.7%) saw growth over 20%. The Virgin Islands saw growth of 68.6% Northern Mariana Islands saw growth of 81.0%, both on very small DPW totals



Profitability

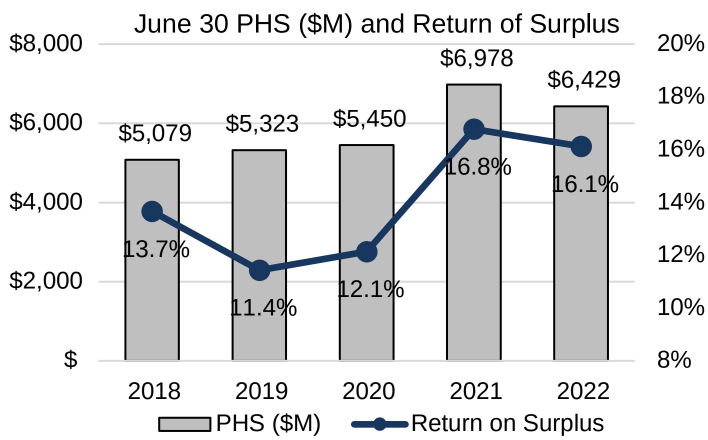
A net operating gain of $1.1 billion was reported for the first half of 2022, representing an 8.8% YoY decrease compar to $1.2 billion for the first half of 2021. This decrease was attributable to a 0.6% (or $71.8 million) decrease in total operating income to $12.9 billion and a 0.3% (or $33.3 million) increase in total operating expenses to $11.8 billio The decrease in total operating income was largely driven by a 18.8% ($65.2 million) decrease in escrow and settlem services, while the increase in operating expenses was largely due to a 9.5% ($27.1 million) increase in losses and adjustment expenses incurred.

The mid-year combined ratio of 98.2% was 0.1 points high than last year but remains below 100% for only the second time since 2009. The loss ratio increased 0.2 points to 2.(reversing a longstanding trend of decreasing values, wl the expense ratio decreased 0.1 points, continuing trend.



A net investment gain of $254.2 million was 31.6% high compared to the prior year period. Net investment incon earned was $176.8 million, an $8.3 million increa compared to 2021. Net realized capital gains increas 214.0% over 2021, to $77.4 million. This increase of $52.7 million, larger than the prior year's increase of $50.3 millic brought net realized capital gains above the pre-pandemic level.

Overall, the solid net investment gain was insufficient to offset the decline in operating income, decreasing net income by 1.3% to $1.1 billion for the first half of 2022. Mid-year net income is still nearly double the industry's 2019 mid-year net income.



Capital & Surplus

Policyholder Surplus (PHS) decreased 7.9% compared to mid-year 2021. This decrease was primarily driven by $924.6 million in dividends to stockholders. Additionally, there was a $666.5 million decrease to PHS from the negative impact of rising net unrealized losses

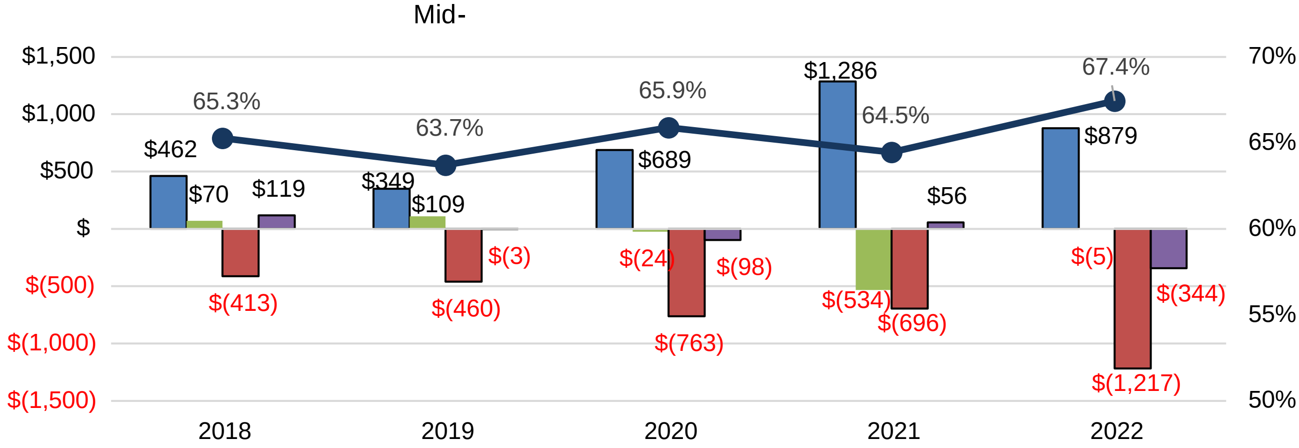
The return on surplus decreased 0.7 points YoY, as both net income and PHS declined, but remains higher than pre-pandemic levels.

Cash & Liquidity

Net cash from operations for the first half of 2022 totaled $879.3 million, a 31.6% decrease compared to the sam period in 2021. Cash inflows decreased a nominal 0.7% to $13.3 billion while cash outflows increased 2.5% ($306.7 million) to $12.4 billion. The primary driver of outflow change was a 2.2% ($255.6 million) increase in commissions, expenses paid, and aggregate write-ins for deductions.

Acquisitions exceeded dispositions in investments, resulting in a net loss for cash from investments of $5.4 million, large improvement over the prior mid-year's net loss of $533.7 million. This change was likely due to financial market deterioration, making new investments less attractive. Net cash from financing recorded a loss of $1.2 billion in cash, nearly double the prior year's loss of $696.0 million. This loss included $47.5 million in cash applied for surplus not and capital as well as a $289.3 million (45.5%) increase to $924.6 million in dividends to stockholders.

Liquidity remained strong at 67.4% as of June 30, 2022. This was a 3 point deterioration over mid-year 2021 Liquid assets increased 1.0% to $10.1 billion on a small 0.3% ($35.5 million) increase in cash and invested assets as well 4.3% ($69.6 million) decrease in affiliated investments.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