NAIC National Association of Insurance Commissioners

2012 Property/Casualty & Title Industry Report

by Financial Regulatory Services Department

Property/Casualty Industry at a Glance

Net profits in the U.S. Property/Casualty industry increased 92.7% in 2012 to $35.2 billion from $18.3 billion in 2011. The improvement was attributed to lower incurred losses, despite the impact of Hurricane Sandy ("Sandy"), but also due to moderate rate increases within certain lines, particularly commercial lines. A 4.3% decline in net losses incurred and a small increase of 1.2% in loss adjustment expenses incurred were reported in 2012. Taking this into consideration, along with top-line growth of 3.1%, the net loss ratio improved 5.0-percentage points to 74.5%. Overall, the industry's posted a net underwriting loss of $14.2 billion. Investment income continues to be hampered by a prolonged period of historically low interest rates that has caused investment yields to slide 80-basis points over the last five years to a 10-year low of 3.6%. This was partially offset by higher realized capital gains and unrealized capital gains, which ultimately, with the improved underwriting performance, led to a 5.1% increase in policyholders' surplus to a new high of $602.3 billion. The improved operations further boosted net cash provided by operating activities by 115.2% in 2012 to $38.6 billion from $18.0 billion in 2011. Liquidity remained strong at 81.5%.

Table 1.
Property & Casualty Industry Results

($ in Billions)	Chg.	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operations											
Net Premiums Written	3.9%	$464.2	$446.6	$432.3	$428.3	$446.6	$455.6	$455.9	$438.7	$438.6	$419.8
Net Premiums Earned	3.1%	$456.4	$442.8	$430.6	$432.7	$450.5	$453.5	$447.7	$430.7	$428.2	$401.3
Net Losses Incurred	(4.3%)	$283.5	$296.2	$263.1	$259.1	$295.1	$254.3	$239.2	$265.1	$257.9	$249.0
Loss Expenses Incurred	1.2%	$56.4	$55.7	$54.3	$54.3	$53.6	$54.3	$54.2	$56.7	$54.6	$51.8
Other Underwriting Expenses	4.4%	$130.3	$124.8	$122.7	$120.7	$122.7	$123.1	$119.8	$111.8	$109.6	$103.4
Net Underwriting Gain/(Loss)	60.0%	($14.2)	($35.5)	($8.8)	$0.9	($19.6)	$22.6	$34.5	($3.5)	$5.9	($3.3)
Loss Ratio	(5.0) pts	74.5%	79.5%	73.7%	72.4%	77.4%	68.1%	65.5%	74.7%	73.0%	75.0%
Expense Ratio	(0.1) pts	28.1%	28.3%	28.2%	27.6%	27.2%	26.8%	26.3%	25.6%	25.0%	24.7%
Dividend Ratio	0.1 pts	0.6%	0.5%	0.7%	0.6%	0.6%	0.7%	0.9%	0.5%	0.5%	0.5%
Combined Ratio	(5.1) pts	103.3%	108.3%	102.6%	100.6%	105.2%	95.6%	92.7%	100.9%	98.5%	100.2%
Net Cash from Operations	115.2%	$38.6	$18.0	$34.9	$31.9	$38.9	$72.7	$86.1	$77.9	$93.5	$77.6
Liquidity Ratio	(0.8) pts	81.5%	82.4%	80.5%	80.7%	85.8%	80.0%	85.7%	90.3%	91.0%	92.7%
Investment Income											
Net Investment Income Earned	(2.6%)	$47.7	$49.0	$47.6	$47.7	$52.3	$55.6	$51.6	$48.0	$39.5	$37.2
Investment Yield	(0.1) pts	3.6%	3.7%	3.7%	3.9%	4.2%	4.4%	4.4%	4.4%	4.0%	4.2%
Net Realized Gain/(Loss)	11.1%	$8.7	$7.8	$8.2	($8.2)	($20.7)	$9.1	$3.6	$12.2	$9.3	$6.8
Capital and Surplus											
Net Income	92.7%	$35.2	$18.3	$36.4	$30.2	$1.7	$63.3	$64.2	$44.9	$37.6	$27.7
Unrealized Gain/(Loss)	-	$11.4	($12.3)	$12.7	$19.1	($71.4)	($15.9)	$27.8	($6.4)	$10.8	$28.3
Policyholders' Surplus	5.1%	$602.3	$573.3	$579.1	$543.5	$474.1	$529.7	$479.6	$427.0	$397.6	$347.9
Return on Surplus	6.9 pts	7.9%	1.0%	8.8%	9.7%	(13.9%)	9.4%	14.2%	10.9%	10.1%	8.7%

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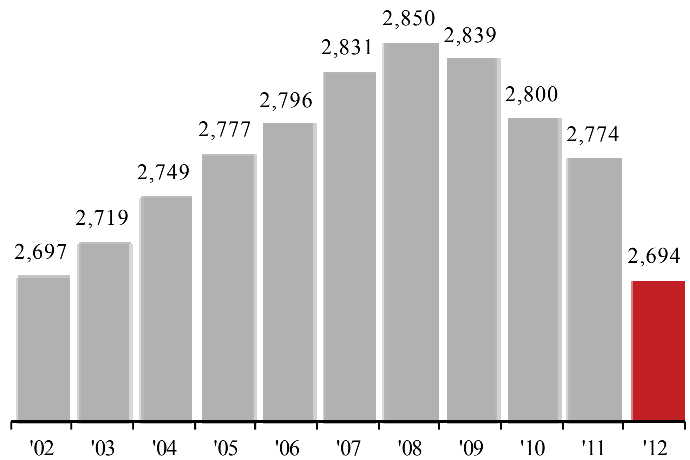
Market Conditions

The U.S. Property/Casualty industry continues to safely navigate through the slow economic recovery, catastrophic events, and extended period of low investment yields. Policyholders' surplus increased to a new high of $602.3 billion, mostly due to improved underwriting performance resulting from a combination of lower incurred losses and higher premium rates. Overall, capital adequacy—measured by net premiums written to policyholders' surplus (net writings leverage)—improved slightly to 77.1%, from 77.7% in 2011. The industry's net writing leverage has remained in the mid-70s since the start of the Great Recession, compared to 94.2% in 2008.

The extensive period of abundant capital has led to intense market competition and an increase in mergers and acquisitions. The number of P/C filers to the NAIC Financial Data Repository fell from a high of 2,850 in 2008 to just 2,694 in 2012, shown in **Figure 1**. This decline is partly attributed to 102 mergers and acquisitions that took place since 2008 (24 in 2012). In addition, there have been 60 rehabilitations or liquidations since 2008 (15 in 2012), as some insurers were much more adversely impacted by market conditions and events. There were 59 insurers that voluntarily went out of business during the last four years, which was offset by 144 new filers.

Figure 1.
No. of P/C Filers



Based on companies filed to the NAIC FDR

Premium

Seen in **Table 2**, direct premiums written increased 4.0% to $520.8 billion in 2012 compared to $500.6 billion in 2011. Sequentially, direct writings increased for 11 consecutive quarters over prior-year-quarters, a trend that accelerated in 2012 due to slightly improved economic conditions and higher premium rates, particularly in the commercial market.

According to The Council of Insurance Agents & Brokers, commercial rates increased on average 5.0% during the fourth quarter of 2012—led by a 9.0% increase within the workers' compensation line. The data reflects that market conditions are in the process of hardening, but overall the soft market looms.

Table 2.
Five-Year Premium Written Trend

($ Billions)	Chg.	2012	2011	2010	2009	2008
Direct	4.0%	$520.8	$500.6	$483.1	$481.2	$496.5
Assumed	5.8%	$375.9	$355.4	$346.9	$355.3	$365.4
Gross	4.7%	$896.6	$856.0	$829.9	$836.4	$861.9
Ceded	5.6%	$432.4	$409.4	$397.6	$408.1	$415.3
Net	3.9%	$464.2	$446.6	$432.3	$428.3	$446.6

All three markets (Personal, Commercial, and Combined) experienced year-over-year direct premium growth, led by a 4.0% or $9.8 billion increase in the personal market to $258.9 billion, followed by a 5.3% or $9.6 billion increase in the commercial market to $191.9 billion and a 1.2% or $0.8 billion increase in the combined market to $70.0 billion. On a sequential basis, direct writings have increased for 16 consecutive quarters over prior- year-quarters in the personal market; 8 consecutive quarters in the commercial market; while the combined market experienced a contraction in direct writings in the last two quarters to prior-year-quarters.

With regard to geographic exposure, all states and the District of Columbia, except for Delaware, experienced year-over-year direct premium growth. Vermont topped all states with a 17.4% growth rate that was mostly associated with a significant increase in "strike coverage" within a domestic captive. The decline in Delaware was primarily attributed to a reduction in group accident and health coverage within one insurer. Direct premiums written outside the U.S. and U.S. territories decreased by 5.1% in 2012 to $12.0 billion (2.3% of total direct business), compared to $12.7 billion in 2011.

Assumed premium written increased 5.8% to $375.9 billion, of which 87.2% was comprised of affiliated business and 12.8% non-affiliated business. The increase in assumptions primarily stemmed from an 18.8% increase in U.S. intercompany pooling arrangements to $273.2 billion, which accounted for 72.7% of total assumptions. Non-U.S. assumptions totaled $15.7 billion or 4.2% of total assumptions.

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PREMIUM (CONT'D.)

Ceded premiums written increased 5.7% to $432.4 billion in 2012 compared to $409.0 billion in 2011 to arrive at net premiums written of $464.2 billion (51.8% net retention). In **Table 3** shows net premiums written by line of business and by market for the last two years.

Personal Lines

Personal lines net premiums written increased 3.5% to $241.0 billion in 2012 compared to $232.8 billion in 2011. All three personal lines experienced year-over-year comparable growth, lead by a 4.9% or $3.2 billion increase in homeowners multiple peril line to $68.0 billion; a 3.0% or $3.0 billion increase in private passenger auto liability line to $103.4 billion; and a 2.9% or $1.9 billion increase in auto physical damage line to $69.6 billion.

Commercial Lines

Net premium growth within the commercial market continued for the third consecutive year with a 4.5% growth rate in 2012 to $161.5 billion. However, despite the upward trend and accelerated growth in 2012, net premiums remain 10.2% off the 10-year high in 2006, just before the soft market took hold.

Premium volume was higher year-over-year for the top four commercial lines, led by a 9.2% increase in the workers' compensation line to $41.1 billion. Other liability premiums gained 5.3% to $38.3 billion, while commercial multiple peril increased 4.2% to $31.2 billion and commercial auto liability increased 2.6% to $17.0 billion.

Commercial lines with decreases included the medical professional liability line, which decreased for the sixth consecutive year to $8.7 billion. The trend in the financial guaranty line was similar, but to a much greater extent as net premiums fell 28.5% to $7.0 million in 2012, which represents a 78.2% decrease since 2008 when the financial crisis began.

Combined Lines

The combined lines net premiums written increased 4.3% to $61.8 billion. The increase mostly attributed to a 12.5% increase in the reinsurance lines to $15.8 billion. In addition, moderate increases of 4.5% and 4.8% in fire and inland marine lines, respectively, rounded out the majority of the overall rise in the market. Although economic indicators suggests that the housing market is beginning to rebound, the mortgage guaranty line continued to decline, with a 6.6% decrease in 2012 to $4.0 billion.

Table 3.
Net Premium Written ($ Billions)

	% Chg.	$ Chg.	2012	2011
Personal Lines	3.5%	$8.2	$241.0	$232.8
Commercial Lines	4.5%	$6.9	$161.5	$154.6
Combined Lines	4.3%	$2.6	$61.8	$59.2
P/C Total	3.9%	$17.6	$464.2	$446.6
Personal Lines				
Prvt. Psgr. Auto Liability	3.0%	$3.0	$103.4	$100.4
Auto Physical Damage	2.9%	$1.9	$69.6	$67.6
Homeowners	4.9%	$3.2	$68.0	$64.8
Commercial Lines				
Workers' Compensation	9.2%	$3.4	$41.1	$37.7
Other Liability	5.3%	$1.9	$38.3	$36.3
Commercial Multiple Peril	4.2%	$1.3	$31.2	$29.9
Commercial Auto Liability	2.6%	$0.4	$17.0	$16.5
Medical Professional Liability	(2.0%)	($0.2)	$8.7	$8.8
Group A&H	(4.3%)	($0.2)	$4.7	$4.9
Surety	(3.5%)	($0.2)	$4.7	$4.9
Farmowners	11.6%	$0.3	$3.3	$2.9
Ocean Marine	(2.2%)	($0.1)	$2.7	$2.8
Products Liability	10.9%	$0.3	$2.6	$2.3
Boiler & Machinery	4.2%	$0.1	$1.9	$1.8
Credit	(2.2%)	($0.0)	$1.5	$1.5
Aircraft (all perils)	3.4%	$0.0	$1.2	$1.1
Fidelity	(0.4%)	($0.0)	$1.1	$1.1
Excess Workers' Compensation	(0.1%)	($0.0)	$0.8	$0.8
Financial Guaranty	(28.5%)	($0.3)	$0.7	$1.0
Burglary & Theft	13.2%	$0.0	$0.2	$0.2
Combined Lines				
Reinsurance (Nonproportional)	12.5%	$1.7	$15.8	$14.0
Allied Lines	0.7%	$0.1	$14.7	$14.6
Fire	4.5%	$0.5	$10.9	$10.5
Inland Marine	4.8%	$0.4	$9.4	$8.9
Mortgage Guaranty	(6.6%)	($0.3)	$4.0	$4.2
Other A&H	11.0%	$0.3	$3.0	$2.7
Earthquake	7.5%	$0.1	$1.6	$1.5
Warranty	(18.2%)	($0.3)	$1.4	$1.7
Aggregate Write-Ins	(4.4%)	($0.0)	$0.9	$1.0
International	14.0%	$0.0	$0.1	$0.1
Credit A&H	51.5%	$0.0	$0.1	$0.0

(Ordered by 2012 NPW)

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Insurance Operations

As seen in **Figure 2** below, underwriting results significantly improved compared to the prior year due to top line growth and lower incurred losses. However, the effects of a lingering soft market and losses stemming from Sandy, although lower than estimated, resulted in a net underwriting loss of $14.2 billion for the year versus a loss of $35.5 billion for 2011. Net premiums earned increased 3.1% to $456.4 billion, while net losses incurred decreased 4.3% to $283.5 billion and loss adjustment expenses incurred increased 1.2% to $56.4 billion. As a result, the net loss ratio improved 5.0-percentage points to 74.5%, but still marginally higher compared to the ten year average of 73.4%. The expense ratio was slightly improved at 28.1% compared to 28.3% for 2011, as a 4.4% or $5.5 billion increase in other underwriting expenses incurred to $130.3 billion was less than the 3.9% or $17.6 billion increase in net premiums written. Overall, the combined ratio improved 5.1-percentage points to 103.3%.

Figure 2.
Net Underwriting Gain (Loss)

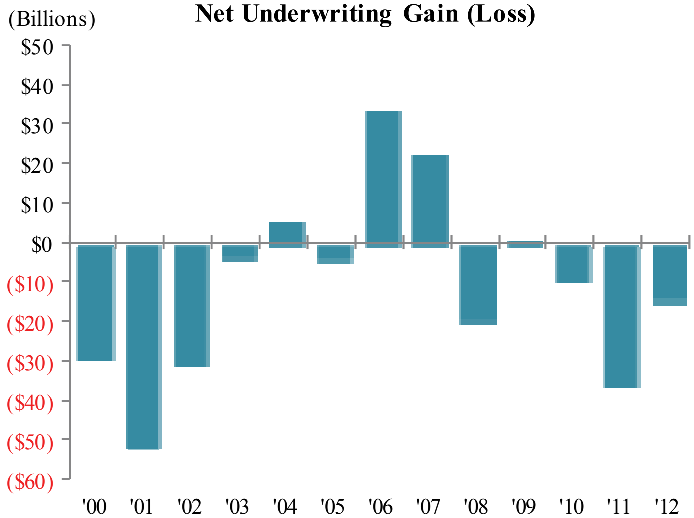

Table 4 shows the underwriting performance for each state on a direct basis. The bullet points below provide additional explanation in states with high pure direct loss ratios (PDLR) in 2012:

- **NJ & NY**—Sandy impacted federal flood, allied lines, ocean marine and inland marine coverage.
- **MI**—sharp rise in passenger auto no-fault (PIP) claims.
- **IN, IA, KS, KY, MO, NE, OK, & SD**—severe drought conditions impacted multiple peril crop insurance.
- **CO**—wildfires led to increase in homeowners losses.

Table 4.
Pure Direct Loss Ratio

State	2012	2011	2010	2009	2008
Alabama	57.8%	109.3%	60.3%	68.0%	63.7%
Alaska	43.0%	44.3%	42.4%	47.4%	38.3%
Arizona	59.1%	76.8%	85.4%	61.8%	61.3%
Arkansas	53.2%	73.6%	61.6%	71.5%	83.2%
California	57.4%	55.0%	53.9%	51.7%	57.7%
Colorado	72.0%	61.9%	63.7%	73.0%	57.8%
Connecticut	60.1%	73.4%	56.7%	55.2%	51.0%
Delaware	64.2%	50.9%	51.1%	68.8%	133.3%
District of Columbia	44.9%	63.5%	64.0%	110.4%	64.5%
Florida	46.3%	48.3%	50.5%	50.9%	50.6%
Georgia	57.2%	65.6%	60.4%	77.6%	69.9%
Hawaii	37.1%	36.0%	37.0%	36.3%	34.3%
Idaho	55.4%	52.3%	52.0%	60.0%	59.4%
Illinois	68.8%	65.3%	64.2%	65.4%	65.7%
Indiana	76.4%	62.5%	52.6%	60.8%	73.4%
Iowa	75.9%	65.8%	61.4%	61.9%	81.3%
Kansas	75.8%	85.7%	51.5%	61.9%	68.0%
Kentucky	83.9%	63.5%	60.9%	72.3%	68.4%
Louisiana	58.6%	51.7%	48.1%	46.2%	78.3%
Maine	44.5%	47.6%	48.0%	50.5%	54.4%
Maryland	62.9%	66.7%	72.4%	62.1%	59.4%
Massachusetts	51.8%	61.8%	52.3%	49.2%	54.3%
Michigan	86.4%	93.4%	80.4%	79.5%	73.1%
Minnesota	53.0%	63.5%	63.9%	59.8%	80.4%
Mississippi	50.6%	63.3%	54.1%	50.4%	63.4%
Missouri	77.7%	93.9%	57.2%	58.2%	64.8%
Montana	51.4%	56.9%	74.5%	66.9%	61.1%
Nebraska	84.1%	67.1%	60.7%	58.4%	73.1%
Nevada	60.7%	61.6%	65.5%	60.1%	65.0%
New Hampshire	51.0%	51.7%	53.8%	55.7%	58.5%
New Jersey	101.8%	71.1%	59.2%	60.6%	60.4%
New Mexico	63.4%	63.9%	58.1%	52.9%	55.9%
New York	89.7%	65.5%	68.7%	72.2%	98.1%
North Carolina	56.3%	77.6%	55.4%	56.4%	54.5%
North Dakota	36.8%	105.4%	50.1%	47.4%	72.3%
Ohio	62.8%	62.8%	55.4%	58.0%	63.1%
Oklahoma	72.1%	74.5%	94.6%	80.8%	77.6%
Oregon	54.9%	53.4%	55.9%	59.6%	60.9%
Pennsylvania	60.5%	63.9%	63.3%	57.1%	62.5%
Rhode Island	59.4%	62.2%	67.1%	53.3%	45.4%
South Carolina	53.5%	65.6%	56.8%	52.7%	52.0%
South Dakota	90.5%	68.3%	68.0%	52.2%	57.1%
Tennessee	66.5%	99.0%	70.6%	60.8%	63.8%
Texas	59.3%	63.4%	52.0%	59.6%	88.2%
Utah	54.5%	59.6%	50.1%	53.7%	53.8%
Vermont	41.4%	58.9%	53.8%	45.8%	59.6%
Virginia	57.6%	67.1%	56.4%	57.7%	56.8%
Washington	54.8%	53.4%	55.6%	60.7%	54.6%
West Virginia	57.3%	48.9%	59.8%	60.4%	56.1%
Wisconsin	57.7%	61.4%	62.7%	58.0%	62.8%
Wyoming	48.0%	70.9%	62.5%	54.7%	53.8%

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Insurance Operations (Cont'd.)

Table 5 provides the net underwriting performance by market and by line. As seen, the overall pure net loss ratio (PNLR) improved 4.8-percentage points to 62.1% as all three markets shown year-over-year improvements.

Personal Lines

In the personal market, net premiums earned increased 2.7% relative to 2011 to $236.9 billion, while net losses incurred fell 5.2% to $151.2 billion, resulting in a 5.3-percentage point decrease in the PNLR to 63.8%. The majority of the improvement occurred within the homeowners line as the PNLR decreased 17.6-percentage points to 63.0%, due to a 19.1% drop in net losses incurred while premiums earned rose 3.5% compared to the year before. The PNLR for the private passenger auto liability and auto physical damage lines showed modest improvements to 63.7% and 64.7%, respectively.

Commercial Lines

The PNLR in the commercial market has been relatively flat over the last three years, measuring at 57.5% in 2012, only slightly better than the 58.9% in 2011. As seen in the table, the PNLR within the top commercial lines showed mild to moderate fluctuations. Some key highlights include a 3.0-percentage point improvement in the workers' compensation line to 67.9%, a reflection of higher rates and economic improvement. Despite litigation concerns in the medical professional liability line, the PNLR remained low at 41.9%. Although the PNLR in the financial guaranty line is still poor at 84.4%, a 53.2-percentage point improvement brought some much needed relief to the sector, mostly due to a sharp reduction in net losses incurred within two insurers. The products liability and farmowners multiple peril sectors also saw double-digit improvements of 37.6-percentage points and 18.4-percentage points, respectively, while the excess workers' compensation line saw a 25.1-percentage point deterioration to 115.7%.

Combined Lines

The combined lines PNLR improved 11.4-percentage point to 67.8% mostly due to a sharp decline in net losses incurred within the reinsurance (nonproportional) and mortgage guaranty sectors. Overall, net losses incurred fell 12.3% for the combined lines market to $40.4 billion, while net premiums earned increased 2.4% to $59.6 billion. Not all news was good for the combined liens market, as the allied lines PNLR rose 9.0-percentage points to 91.4% due to the significant drought and losses related to Sandy—although the majority of losses were federal flood losses.

Table 5.
Pure Net Loss Ratio

	Pt. Chg.	2012	2011	2010
Personal Lines	(5.3) pts	63.8%	69.1%	64.0%
Commercial Lines	(1.4) pts	57.5%	58.9%	57.8%
Combined Lines	(11.4) pts	67.8%	79.2%	58.5%
P/C Total	(4.8) pts	62.1%	66.9%	61.1%
Personal Lines				
Prvt. Psgr. Auto Liability	(1.0) pts	63.7%	64.7%	66.6%
Auto Physical Damage	(0.1) pts	64.7%	64.8%	58.4%
Homeowners	(17.6) pts	63.0%	80.6%	66.1%
Commercial Lines				
Workers' Compensation	(3.0) pts	67.9%	70.9%	72.6%
Other Liability	4.5 pts	53.1%	48.5%	56.4%
Commercial Multiple Peril	(7.8) pts	56.0%	63.8%	51.9%
Commercial Auto Liability	5.1 pts	62.7%	57.7%	53.9%
Medical Professional Liability	6.7 pts	41.9%	35.2%	32.1%
Surety	4.6 pts	19.6%	15.0%	14.5%
Group A&H	(3.2) pts	64.3%	67.5%	63.9%
Farmowners	(18.4) pts	59.9%	78.3%	68.6%
Ocean Marine	6.1 pts	63.7%	57.6%	50.7%
Products Liability	(37.6) pts	31.1%	68.7%	73.8%
Financial Guaranty	(53.2) pts	84.4%	137.6%	148.5%
Boiler & Machinery	3.4 pts	40.8%	37.4%	32.0%
Credit	7.9 pts	45.4%	37.4%	75.5%
Aircraft (all perils)	(4.4) pts	54.1%	58.5%	52.1%
Fidelity	(3.0) pts	55.3%	58.2%	54.5%
Excess Workers' Compensation	25.1 pts	115.7%	90.6%	21.7%
Burglary & Theft	(6.7) pts	20.5%	27.2%	30.6%
Combined Lines				
Reinsurance (Nonproportional)	(34.1) pts	48.5%	82.6%	45.2%
Allied Lines	9.0 pts	91.4%	82.4%	54.7%
Fire	(6.0) pts	49.9%	56.0%	42.0%
Inland Marine	(1.2) pts	56.4%	57.6%	46.2%
Mortgage Guaranty	(30.8) pts	161.6%	192.4%	171.0%
Other A&H	0.0 pts	83.2%	83.1%	83.5%
Warranty	0.2 pts	72.6%	72.3%	69.9%
Earthquake	(21.8) pts	5.5%	27.3%	14.2%
Aggregate Write-Ins	(24.0) pts	23.2%	47.1%	43.3%
International	(17.6) pts	30.2%	47.8%	123.3%
Credit A&H	9.5 pts	19.7%	10.2%	15.3%

(Ordered by 2012 Net Premiums Earned)

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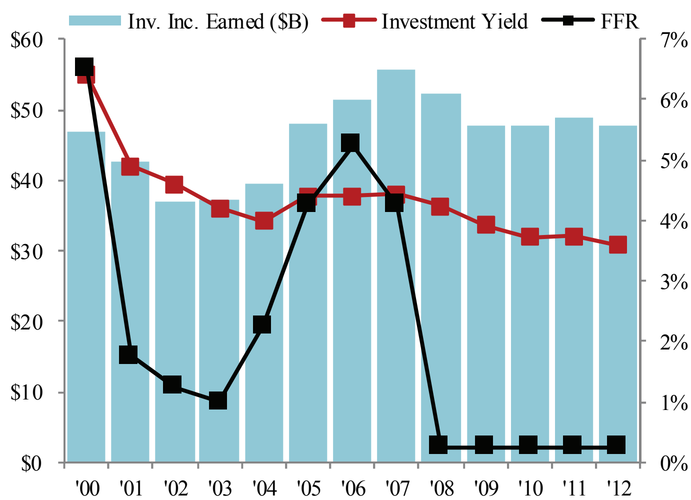
Investment Operations

Investment income remained depressed due to the continued low interest rate environment. The federal funds rate (FFR) has fallen from 5.25% in June 2006 to just 0.25% where it has held since December 2008. As a result, the industry's investment yield—a measure of net investment income earned to average cash and invested assets—decreased 80-basis points from 4.4% in 2006 to a 10-year low of 3.6% in 2012, shown in **Figure 3**. Overall, net investment income earned decreased 2.6% year-over-year to $47.7 billion while average cash and invested assets increased 1.2% to $1.3 trillion.

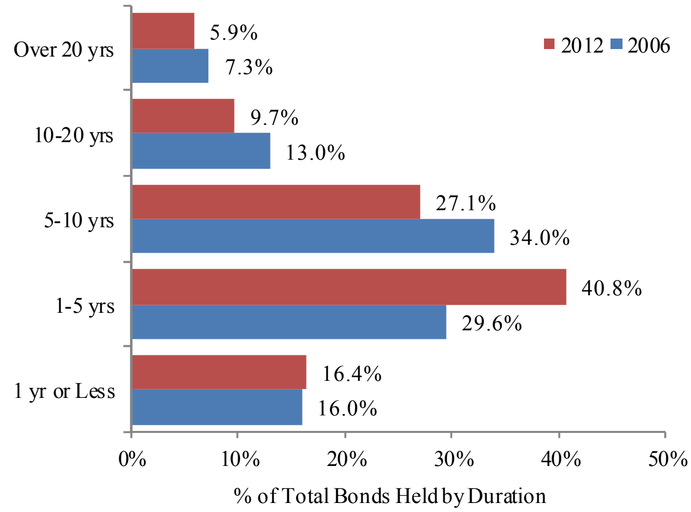
Figure 3.
Investment Profit



In accordance with the low interest rate environment, the decrease in investment income earned since 2006 primarily stemmed from a 27.3% or $5.6 billion decrease in U.S. Government bonds and tax-exempt bonds to $14.8 billion and a 96.4% or $4.6 billion decrease in cash, cash equivalents, and short-term investments to just $173.7 million. At the same time, investment income earned from other invested assets increased 75.0% or $3.3 billion to $7.7 billion and other unaffiliated bonds increased 13.7% or $2.6 billion to $21.9 billion, which indicates that insurers are investing more aggressively.

Net realized capital gains increased by 11.1% to $8.7 billion in 2012 compared to $7.8 billion in 2011. The majority of the gains (in pre-tax dollars) derived from unaffiliated non-Government bonds totaling $3.9 billion, followed by a gain of $3.0 billion in unaffiliated common stocks and $1.8 billion in affiliated common stocks. In 2007, before interest rates fell, the majority of gains derived from unaffiliated common stocks totaled $8.0 billion, while gains from bonds were nominal.

Figure 4.
Bond Duration

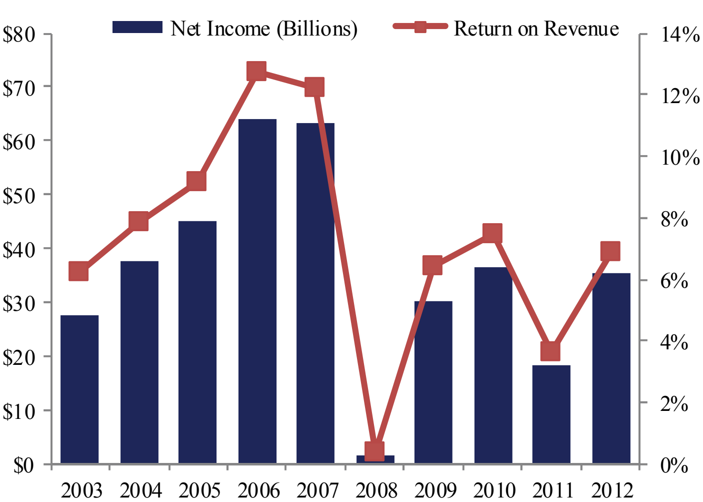


Although the industry remains heavily invested in bonds, there has been a material shift in bonds with durations of five years or less, seen in **Figure 4**, signifying that insurers are anticipating a pro-longed period of lower long-term yields and continued slow economic recovery. In comparison to 2006, investments in bonds with shorter-term duration (5 years or less) accounted for 57.2% of total bonds in 2012, versus 45.6% in 2006.

Net Income

The industry's bottom line increased 92.7% to $35.2 billion in 2012 from $18.3 billion in 2011. The improvement stemmed from higher premium rates and lower incurred losses that attributed to improved underwriting results. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized gains (losses)—improved to 6.9% or 3.2-percentage points higher than the 3.7% recorded in the prior year.

Figure 5.
Net Income



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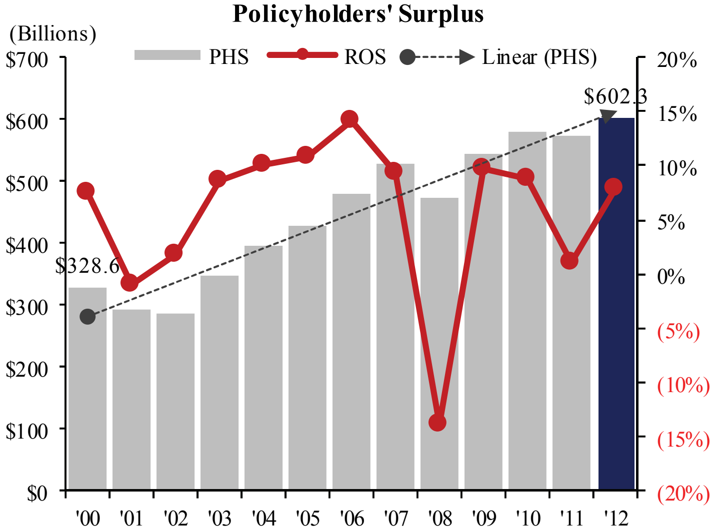
Policyholders' Surplus

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 5.1% since the prior year-end to a new high of $602.3 billion, shown in **Figure 6**. This increase was mostly attributed to net income of $35.2 billion, unrealized capital gains of $11.4 billion, and $5.6 billion in paid-in surplus, partially offset by $32.1 billion in stockholder dividends and aggregate write-ins for losses in surplus totaling $2.8 billion. Return on surplus—a measure of net income and unrealized capital gains (losses) to average policyholders' surplus—increased 6.9-percentage points to 7.9% from 1.0% at prior year-end.

Figure 6.
Policyholders' Surplus



Cash & Liquidity

Net cash provided by operating activities totaled $38.6 billion in 2012 compared to $18.0 billion for the year prior. The improvement was driven by higher net premiums earned that increased cash inflows by 3.6% to $512.3 billion (adjusted for affiliated investments), while lower net losses incurred reduced cash outflows by 0.6% to $473.7 billion. Net cash from investing activities was $(13.0) billion compared to $(17.4) billion in 2011, primarily as the industry acquired fewer bonds in 2012. Net cash used by financing and miscellaneous sources totaled $29.6 billion, which mostly consisted of stockholder dividends. Overall, cash and short-term investments decreased $4.0 billion during the year.

The industry's liquidity position remained very strong at 81.5%, as liquid assets (less affiliated investments) rose to $1.2 trillion while adjusted liabilities increased at a lesser rate to $982.7 billion. The resulting change in the liquidity ratio was a nominal 0.8-percentage point decrease.

Reserves

Aggregate loss and LAE reserves decreased by 0.8% or $5.1 billion to $608.3 billion at year-end 2012 from $613.3 billion at the prior year-end. The majority of the decline occurred within the financial guaranty and mortgage guaranty lines, as collectively reserves decreased by 37.4% or $9.8 billion, which coincides with reduced writings. Other notable declines include a 0.9% or $1.4 billion decrease in workers' compensation reserves, a 6.8% or $1.1 billion decrease in products liability-occurrence reserves, and a 2.7% or $981 million decrease in reinsurance—nonproportional assumed liability reserves. Lines of business with material increases in reserves include the special property line (fire, allied lines, inland marine, earthquake, and burglary & theft) that saw an 11.4% or $2.0 billion increase, and reserves within the private passenger auto liability line increased by 1.3% or $1.2 billion. **Table 6**, shows the one-year and two-year loss reserve development by line, with an overall one-year redundancy of $10.2 billion and two-year redundancy of $20.5 billion.

Table 6.
Loss Reserve Development (in Millions)

	1-Yr	2-Yr
Homeowners/Farmowners	($1,593)	($1,600)
Private Passenger Auto Liability/Medical	($2,775)	($4,452)
Commercial Auto/Truck Liability/Medical	$537	($224)
Workers' Compensation	($978)	($974)
Commercial Multiple Peril	$143	($723)
Medical Professional Liability - Occurrence	($414)	($839)
Medical Professional Liability - Claims-Made	($1,399)	($2,732)
Special Liab (Ocean Mar, Aircraft, Boiler&Mach)	($421)	($753)
Other Liability - Occurrence	$790	($935)
Other Liability - Claims-Made	($526)	($1,094)
Special Prop (Fire, Allied, Inland Mar, EQ, B&T)	($495)	($1,497)
Auto Physical Damage	($1,963)	($1,846)
Fidelity /Surety	($276)	($694)
Other (including Credit, A&H)	$299	$184
International	($29)	($52)
Reinsurance (Nonpro-Property)	($785)	($978)
Reinsurance (Nonpro-Liability)	($888)	($1,203)
Reinsurance (Nonpro-Financial)	($27)	($109)
Product Liability - Occurrence	($4)	$1,107
Product Liability - Claims-Made	($42)	($46)
Financial Guaranty/Mortgage Guaranty	$621	($1,046)
Warranty	$40	$45
Total	**($10,185)**	**($20,460)**

(Shown in order of appearance in Annual Statement Sch. P - Pt. 2 pages)

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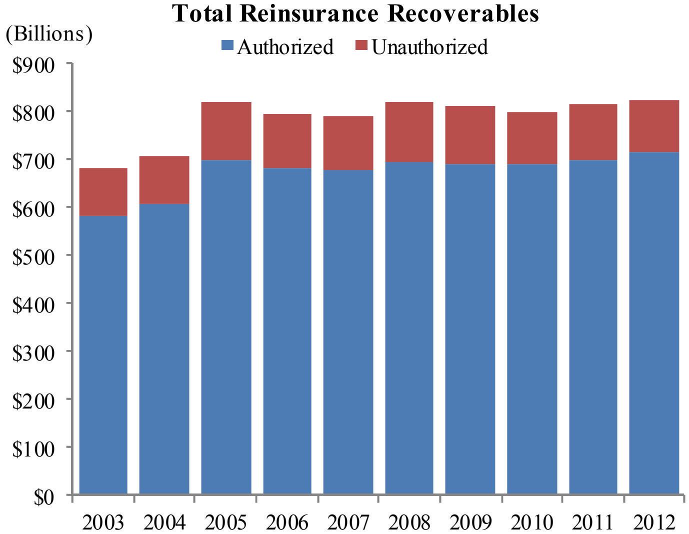
Reinsurance

Total amounts recoverable from reinsurers for the industry increased 2.0% to $830.5 billion in 2012 from $814.0 billion in 2011. Authorized balances represented 86.4% of total recoverable balances, totaling $717.4 billion, which is 2.5% higher compared to the prior year. Unauthorized balances represented 13.0% of total recoverable balances, totaling $107.8 billion, which is 5.3% lower compared to the prior year. Leverage related to net recoverable balances decreased to 129.7% of policyholders' surplus in 2012 from 133.7% in 2011. Amounts recoverable on paid loss and LAE increased 2.2% to $30.7 billion (5.1% of policyholders' surplus), whereby $25.3 billion represented authorized reinsurance and $5.2 billion unauthorized. Total overdue reinsurance balances on paid losses and LAE was $3.1 billion or 10.0% of total amounts recoverable. Authorized overdue balances totaled $2.2 billion or 70.8% of total overdue while unauthorized overdue balances totaled $883.3 million or 28.8% of the total.

Figure 7.
Total Reinsurance Recoverables



Professional Reinsurers

The NAIC defines the professional reinsurance market as insurers that collectively comprise the top 75% of non-affiliated assumption. In 2012, 31 insurers represented the professional reinsurer market with a combined non-affiliated assumptions of $36.2 billion, representing 75.3% of the non-affiliated assumed premiums market. **Table 7** provides a list of the 2012 professional reinsurance market along with key financial highlights.

With respect to the professional reinsurance market overall, return on revenue improved 1.2-percentage points to 13.9%, due to higher net profits as a result of lower incurred losses compared to the prior year. Net income totaled $9.6 billion, as a net underwriting loss of $3.4 billion was offset by a net investment gain of $14.4 billion. The net loss ratio improved 5.2-percentage points in 2012 to 77.6% compared to 82.8% in 2011 while the expense ratio increased 0.8-percentage points to 28.3%, resulting in a 4.5-percentage point improvement in the combined ratio to 105.9%. With respect to assumed business, assumed losses incurred totaling $55.4 billion and accounted for 65.7% of assumed premiums earned. Prior year reserves continued to develop favorably in 2012, as the one-year reserve development was redundant by $38 million and the two-year development was redundant by $866 million. Operating cash flow remains positive at $14.4 billion and the liquidity ratio improved, but was still poor at 100.4%.

Table 7.
Professional Reinsurance Market

Reinsurer	Non-Aff APW	Net Income	Return on Revenue	Return on Surplus
National Ind Co	$5,911	$5,366	43.1%	16.7%
Swiss Reins Amer Corp	$4,394	$432	25.7%	9.6%
Transatlantic Reins Co	$3,175	$345	9.7%	8.8%
Everest Reins Co	$2,518	$360	19.0%	19.6%
Munich Reins Amer Inc	$2,373	$378	10.9%	9.2%
Odyssey Reins Co	$1,828	$175	8.8%	11.4%
Partner Reins Co Of The US	$1,220	$181	17.1%	15.2%
Firemans Fund Ins Co	$1,111	($815)	(22.0%)	(28.6%)
General Reins Corp	$1,051	$433	38.5%	14.5%
Rural Comm Ins Co	$941	($6)	(1.4%)	(1.1%)
American Agricultural Ins Co	$905	$10	3.0%	3.5%
Scor Reins Co	$814	($89)	(11.5%)	(12.9%)
Ace Amer Ins Co	$799	$59	3.3%	7.5%
Hartford Steam Boil Inspec	$662	$128	17.8%	22.8%
Empire Fire & Marine Ins Co	$645	$3	100.5%	5.7%
Maiden Reins Co	$640	($19)	(5.9%)	(6.8%)
Berkley Ins Co	$599	$295	14.8%	10.5%
Liberty Mut Ins Co	$574	$164	1.5%	3.4%
QBE Ins Corp	$553	($24)	(2.9%)	(4.6%)
AXIS Reins Co	$550	$35	7.3%	5.8%
XL Reins Amer Inc	$522	$66	6.8%	4.7%
Nat'l Union Fire Ins Co of Pitts	$508	$1,039	15.6%	6.1%
Ace Prop & Cas Ins Co	$494	$69	4.1%	6.7%
Endurance Reins Corp of Amer	$487	($20)	(7.4%)	(25.1%)
Toa Re Ins Co Of Amer	$471	$33	7.5%	8.3%
Lexington Ins Co	$447	$409	7.4%	6.8%
Alterra Reins USA Inc	$425	$10	4.5%	(2.0%)
QBE Reins Corp	$409	$5	1.3%	(3.4%)
Agrinational Ins Co	$406	($22)	(13.9%)	(14.7%)
Factory Mut Ins Co	$395	$612	19.3%	16.1%
Arch Reins Co	$381	$7	3.9%	(3.0%)

($ in Millions)

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CATASTROPHE REPORT

GLOBAL CATASTROPHES

Global catastrophic events made numerous headlines in 2012 as people around the globe were impacted by multiple devastating events. According to Munich Re's 2012 Natural Catastrophe Year in Review, 905 catastrophic loss events took place throughout the year compared to 820 in the prior year and an average of 800 for the prior 10-year period. Globally, economic losses totaled $160 billion which was slightly below the 10-year average of $165 billion. However insured losses totaling $65 billion were well above the 10-year average of $50 billion. The insurance losses recorded for the year rank 2012 as the third most costly year for insurers in history, on a global basis, behind 2005 and 2011. Meteorological events were the dominant cause of catastrophe related losses during the year representing 63% of overall losses and 83% of insured losses reported. Almost 70% of overall losses and over 90% of global insured losses occurred in North America during 2012. Globally there were significantly less fatalities reported related to catastrophic events for the year at 9,500 compared to 27,000 in 2011.

U.S. CATASTROPHES

The United States experienced the majority of the world's economic and insured losses in 2012. Of the $165 billion in overall losses reported during the year the U.S. accounted for approximately 67% of total. As for the $65 billion of global insured losses the U.S. accounted for over 90% or $57.9 billion. The U.S. experienced over 180 natural catastrophic events during the year including 19 floods, 2 major winter storms, 38 wildfires, 2 droughts, 115 severe thunderstorms, and 4 hurricanes. Tornados, of which there were relatively few, contributed over $14 billion to total insured losses the second highest recorded annual amount. The overall loss data for property lines most impacted by 2012 catastrophic events are provided in the table below.

State	All Property	Home MP	Farm MP	Earthquake	Auto Phys Dmg	Allied Lines	MP Crop	Flood	Ocean Marine	Inland Marine	Comm MP (non-liab)	Fire
NJ	101.8%	126.4%	88.7%	(12.0%)	80.2%	417.9%	(66.5%)	1,429.2%	285.5%	163.0%	160.1%	69.2%
SD	90.5%	67.7%	58.7%	(9.4%)	64.7%	74.5%	156.4%	60.3%	37.4%	59.4%	54.2%	43.1%
NY	89.7%	80.4%	54.2%	(10.3%)	101.2%	452.4%	77.3%	1,665.5%	131.4%	152.3%	101.8%	63.7%
MI	86.4%	55.0%	52.0%	279.7%	65.1%	79.5%	66.6%	61.4%	168.7%	57.0%	61.3%	36.9%
NE	84.1%	60.1%	67.4%	(20.0%)	63.1%	63.3%	215.1%	4.1%	33.7%	37.1%	54.9%	30.5%
Industry Average	63.4%	58.7%	62.5%	(1.3%)	64.5%	77.0%	138.3%	196.5%	62.9%	57.7%	61.6%	37.9%

New Jersey experienced the worst pure direct loss ratio (PDLR) overall at 101.8%, followed by South Dakota at 90.5% and New York rounding out the top three at 89.7%. The states with the highest PDLR ratios were those impacted by Sandy in October and those states hit hardest by the severe drought which impacted the country's major agricultural states in the Midwestern region.

Of the 4 hurricanes making landfall in the U.S. during 2012, Sandy was by far the largest in terms of size, damage and economic impact. In fact, per the National Oceanic and Atmospheric Administration, Sandy was the largest diameter Atlantic hurricane on record. The storm itself engulfed an area the size of the state of Texas as it moved up the Atlantic seacoast eventually making landfall just south of Atlantic City, New Jersey. Although winds associated with the storm topped out close to 90 mph, flooding caused the majority of damage and losses as it made its way through the northeastern U.S. The storm brought a record breaking 13.9-foot storm surge to the southern edge of Manhattan and a 15-foot surge on the New Jersey coastline. The devastation from the deluge of water caused overall economic losses totaling $50 billion and insured losses of $25 billion.

The severe droughts that encompassed a large portion of the U.S. farm belt were responsible for estimated economic losses approaching $20 billion and estimated insured losses of $16 billion (including Federal Crop Insurance Losses). The droughts were the worst in the past 76 years and affected over 60% of the country in 36 states and over 1,600 counties. Not since the dust bowl of the Great Depression Era had the U.S. experienced droughts of a greater magnitude.

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Catastrophe Report (Cont'd.)

Timeline of Events

Africa, Mozambique
Cyclone Funso
- Dates: Jan. 19-28
- Fatalities: 46
- 140 mph winds equivalent to Category 4 hurricane

Europe
Winter Storm Adrea
- Date: Jan. 2012
- Winds in excess of 124 mph
- Economic Losses exceeded $700M
- Insured Losses $400M

Australia, New South Wales
Flash Floods
- Dates: Feb. - March
- Est. Economic Losses in excess of $500M
- Multiple bridges and roads damaged

United States, Midwest, Tennessee Valley & South
Severe Storms & Tornados
- Dates: Mar. 2-3
- Insured Losses $1.1B
- 170,000 claims filed
- Town of Henryville, IN destroyed by EF-4 tornado with est.170 mph winds
- Over 45 confirmed tornados reported
- 40 storm related deaths

Mexico, Oaxaca
Earthquake
- Date: March 20
- Est. Insured Losses $100M
- Magnitude 7.4
- No deaths
- 500 homes destroyed

United States, St. Louis Metro Area
Large Hail Event
- Dates: Apr. 28-29
- Est. Insured Losses $450 M
- Est. 100,000 claims for damage
- Baseball sized hail reported

United States, New Mexico
Whitewater-Baldy Wildfire
- Baldy Fire started May 9 due to lightning strike
- Whitewater Fire started May 16 due to lightning
- Fires merged on May 23
- Over 290,000 acres burned
- Minimal impact to insurers

Italy
Earthquakes
- Date: May 20/29
- Fatalities: 23
- First earthquake magnitude 5.9
- Second magnitude 5.8
- 800 aftershocks caused additional damage & losses
- Numerous historic structures destroyed

United States, Ft. Collins Colorado
High Park Wildfire
- Started June 9
- Caused by lightning strike
- Est. Insured Losses $97.1M
- 259 homes destroyed
- 87,000 acres burned

United States, Colorado
Waldo Canyon Wildfire
- Started June 23
- Caused by human activity
- Est. Insured Losses $352.6M
- 346 homes destroyed
- The most destructive wildfire in Colorado history
- Consumed more than 18,000 acres

United States, Midwest to Mid-Atlantic
Derecho Storm
- June 29
- Storm traveled 600 miles in just 10 hours
- Peak wind gusts 80-100 mph
- Millions left without power

United States, Drought
- Summer 2012
- Most severe and extensive drought in 76 years.
- 80% of agricultural land experienced drought
- Encompassed a large amount of the country's farm belt

United States, Southeast
Hurricane Isaac
- Made landfall August 28 over Mississippi River delta and Port Fourchon, LA
- Storm surge up to 11 feet
- Significant inland flooding due to heavy rainfall
- Economic losses of $2.0 billion, insured losses of $1.2 billion

United States, Northeast
Hurricane Sandy
- Made landfall on October 29 near Atlantic City, NJ
- Minor to moderate wind damage, majority of damage caused by flooding
- Storm surge of 13.9 feet in Battery Park, NY and over 15 feet along NJ coast
- Economic losses of $50 billion, insured losses of $25 billion
- Largest diameter hurricane on record in history of the Atlantic Basin

Philippines
Typhoon Bopha
- December 4-5
- Category 5 storm with winds over 160 mph upon landfall.
- More than 1,000 deaths
- 400,000 people displaced by storm
- Overall losses of $600 M
- Insured losses were considered minor

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

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TITLE INDUSTRY

Premium

The U.S. title industry has started to display signs of improvement. Direct business written increased 21.9% to $11.3 billion in the current year from $9.3 billion in 2011. Assumptions declined slightly to $23 million from the $26 million reported for 2011, leading to a 21.8% increase in gross writings to $11.3 billion. Cessions totaled $58 million, resulting in a 21.6% year-over-year increase in net writings to $11.2 billion (99.5% retention). The gross and net writings leverage ratios were at 292.0% and 290.5%, respectively.

Profitability

For the first time since the housing crisis began the industry has recorded a net operating gain at $503 million, a 2,340.8% improvement from the prior year. The improvement was due to a $1.8 billion rise in operating income to $12.2 billion while total operating expense rose only $1.3 billion to $11.7 billion. The combined ratio improved 8.4-percentage points due to a 4.2-percentage point decrease in both the loss ratio and expense ratio to 7.6% and 96.7%, respectively.

The industry reported net investment gains of $357 million, a 6.2% decrease from prior year-end. Net investment income reported a 7.3% year-over-year decline to $321 million, partially offsetting was a 5.9% rise in net realized capital gains to $36 million. Investment yield - a measure of net investment income earned over average cash and invested assets (excluding affiliated investments) declined 0.7-percentage points to 4.7%.

Overall, the industry reported a significant improvement in profitability with a net income of $722 million versus net income of $309 million in 2011.

Capital & Surplus

Industry aggregated policyholders' surplus increased 30.1% to $3.9 billion, the majority of which was due to the 133.5% increase in net income to $722 million and a 273.9% rise in net unrealized gains to $176 million.

Return on surplus - a measure of net income and unrealized capital gains (losses) to average policyholders' surplus rose 19.2-percentage points to 26.2%.

Cash & Liquidity

Net cash from operations recorded a 405.5% increase to $842 million compared to $167.0 million reported in the prior year. Cash inflows rose 17.5% to $ 12.6 billion while cash outflows increased at a lesser rate of 11.4% to $11.7 billion. Net cash used by investing activities totaled $466.1 million and net cash used by financing activities totaled $165.7 million for an overall increase in cash, cash equivalents and short-term investments of $210.1 million.

The industry's liquidity ratio improved 14.5-percentage points to 81.7%. The improvement was attributed to a 12.1% increase in liquid assets and a 4.8% decrease in adjusted liabilities.

Table 8.
Title Industry Results

($ Millions)	Chg.	2012	2011	2010
Insurance Operations				
Net Premiums Written	21.6%	$11,246	$9,249	$9,438
Title Premiums Earned	19.9%	$11,230	$9,364	$9,403
Loss & LAE Incurred	(22.9)%	$849	$1,102	$1,105
Operating Exp Incurred	16.9%	$10,874	$9,300	$9,597
Net Operating Gain/(Loss)	-	$503	$(22)	$(214)
Loss Ratio	(4.2)-pts	7.6%	11.8%	11.8%
Expense Ratio	(4.2)-pts	96.7%	100.9%	101.7%
Combined Ratio	(8.4)-pts	104.3%	112.7%	113.4%
Net Cash from Operations	405.0%	$842	$167	$167
Liquidity Ratio	(14.5)-pts	81.7%	96.3%	98.3%
Investment Operations				
Net Inv. Income Earned	(7.3)%	$321	$346	$334
Investment Yield	(0.7)-pts	4.7%	5.4%	5.3%
Net Realized Gain/(Loss)	5.9%	$36	$34	$(80)
Capital and Surplus				
Net Income	133.5%	$722	$309	$31
Net Unrealized Gain/(Loss)	-	$176	$(101)	$431
Policyholders' Surplus	30.1%	$3,871	$2,975	$2,984
Return on Surplus	19.2-pts	26.2%	7.0%	14.9%

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DISCLAIMER

The NAIC 2012 Property & Casualty and Title Insurance Mid-Year Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of December 31, 2012, and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.

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