National Association of Insurance Commissioners

2013 Mid-Year Property/Casualty & Title Insurance Industry Report

NAIC Financial Regulatory Services Department

PROPERTY/CASUALTY INDUSTRY AT A GLANCE

Net profits in the U.S. Property/Casualty insurance industry increased 78.0% in the first half of 2013 to $35.9 billion from $20.2 billion in the first half of 2012, reaching a ten year high at mid-year. The improvement was ascribed to lower incurred losses resulting from a mild first half in terms of catastrophe exposure, but also due to moderate growth and rate increases that led to higher earned premiums. The result was a net underwriting gain of $6.0 billion compared to a loss of $5.9 billion for the prior year-to-date. The combined ratio fell to 96.9% and was represented by a 68.4% loss ratio, 28.0% expense ratio, and 0.5% dividend ratio. The combined ratio has not been below 100% at mid-year since 2007. Total investment income increased by 28.9% to $38.1 billion, despite quantitative easing that has effectively kept interest rates low. The overall improvement in the industry's underwriting and investment operations led to a 2.7% increase in aggregated policyholders surplus to a new all-time high of $618.4 billion. Further, annualized return on surplus was 11.8%. Cash flow from operating activities was steady at $26.4 billion and the industry's liquidity position remained very strong at 80.5%. Looking ahead, the strong first half carried over into 3Q-2013—barring a major catastrophe or adverse effect from the Government shutdown, the industry is on pace for a record profit setting year.

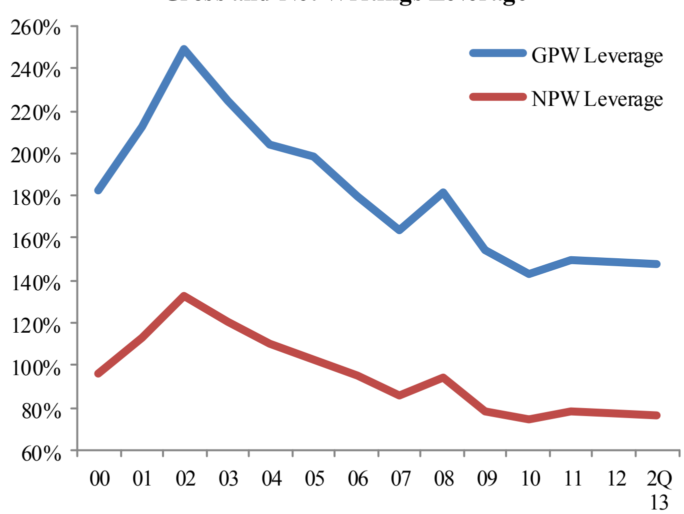
Table 1.
Property & Casualty Industry Results

Underwriting Operations	**Chg.**	**2Q13**	**2Q12**	**2Q11**	**2Q10**	**2Q09**	**2Q08**	**2Q07**	**2Q06**	**2Q05**	**2Q04**
Net Premiums Written	4.0%	$240.9	$231.6	$223.0	$217.0	$217.4	$228.3	$229.5	$230.0	$211.1	$221.0
Net Premiums Earned	4.0%	$232.4	$223.4	$216.8	$211.9	$216.6	$224.3	$223.4	$221.0	$203.7	$209.7
Net Losses Incurred	(4.0%)	$131.5	$136.9	$150.3	$129.9	$132.0	$141.1	$121.1	$120.1	$112.0	$120.1
Loss Expenses Incurred	2.3%	$27.5	$26.9	$27.4	$25.9	$26.5	$26.3	$26.4	$26.3	$24.7	$26.0
Other Underwriting Expenses	2.6%	$67.4	$65.6	$62.6	$61.1	$60.6	$62.1	$61.1	$59.0	$53.4	$54.2
Net Underwriting Gain/(Loss)	-	$6.0	($5.9)	($23.7)	($4.7)	($1.8)	($4.9)	$14.5	$15.4	$13.3	$9.3
Loss Ratio	(4.9) pts	68.4%	73.3%	82.0%	73.5%	73.2%	74.6%	66.0%	66.2%	67.1%	69.7%
Expense Ratio	(0.4) pts	28.0%	28.3%	28.1%	28.1%	27.9%	27.2%	26.6%	25.6%	25.3%	24.5%
Dividend Ratio	0.1 pts	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%
Combined Ratio	(5.2) pts	96.9%	102.2%	110.6%	102.1%	101.5%	102.4%	93.1%	92.3%	92.8%	94.6%
Net Cash from Operations	39.6%	$26.4	$18.9	$14.2	$21.3	$17.0	$30.8	$36.8	$41.6	$39.1	$39.3
Investment Operations											
Net Investment Income Earned	6.2%	$27.0	$25.4	$27.1	$27.8	$25.6	$29.0	$29.2	$29.4	$26.0	$20.8
Investment Yield	0.1 pts	4.0%	3.9%	4.1%	4.4%	4.3%	4.5%	4.7%	5.1%	5.1%	4.3%
Net Realized Gain/(Loss)	169.6%	$11.1	$4.1	$3.9	$4.4	($11.5)	($0.6)	$3.8	$0.9	$3.0	$4.4
Net Income	78.0%	$35.9	$20.2	$6.6	$22.2	$6.9	$17.1	$34.4	$33.8	$32.0	$24.7
Unrealized Gain/(Loss)	2.2%	$15.1	$14.8	$4.7	($8.8)	$4.0	($18.8)	$12.5	$8.6	$0.5	$8.8
Capital and Surplus	**Chg.**	**2Q13**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Policyholders' Surplus	2.7%	$618.4	$602.3	$573.3	$579.1	$543.5	$474.1	$529.7	$479.6	$427.0	$397.6
Return on Surplus	5.8 pts	11.8%	6.0%	3.2%	6.5%	5.9%	0.3%	12.5%	14.2%	10.9%	10.1%

Market Conditions

The competitive landscape in the U.S. property/casualty insurance industry continued in the first half of 2013, and was in fact fueled by the surge in profitability that further strengthened the industry's capital position. Capital adequacy certainly remains abundant, evidenced by unprecedented low rolling gross and net writing leverage ratios of 147.4% and 76.8%, respectively (**Figure 1**), compared to averages of 199.7% (gross) and 105.7% (net) for years prior to 2009. This low leverage allows the industry plenty of room to expand. **Figure 2**, shows a steady decline in the number of property/casualty filers to the NAIC Financial Data Repository since 2008. Soft market conditions and excessive capital have attributed to this decline, as these key factors have resulted in an increase in mergers/acquisitions, but have also forced some insurers out of business or into receivership. In the first six months of 2013, there have been eight insurers that became inactive due to mergers, seven insurers entering receivership, and six insurers that became inactive or voluntarily out of business.

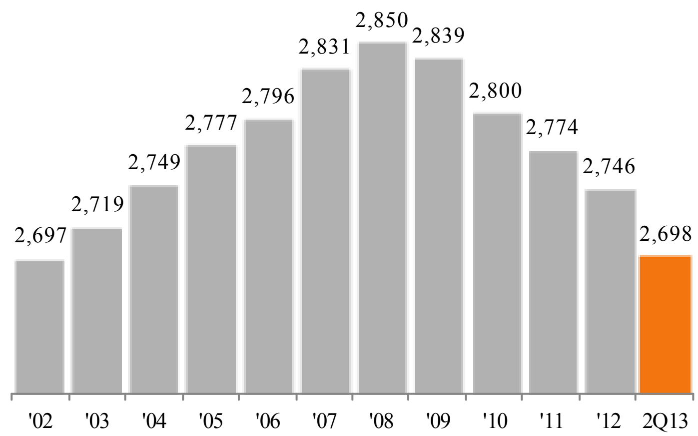
Figure 1
Gross and Net Writings Leverage



Premium

Seen in **Table 2**, direct writings grew by 3.3% or $8.5 billion in the first half of 2013 to $268.4 billion compared to $259.9 billion in the first half of 2012. This growth mostly occurred in the commercial market, as premiums increased by 5.2% or $5.0 billion to $102.2 billion. According to a recent pricing index survey by The Council of Insurance Agents & Brokers (CIAB), commercial rates increased on average, 5.2% and 4.3%, in first and second quarter, respectively. The personal lines market saw an increase of 3.6% or $4.6 billion to $133.0 billion, while direct writings in the combined lines market fell by 3.2% to $33.2 billion. Sequentially, total direct premiums written has increased for 13 consecutive quarters over prior-year-quarters, although a slowdown occurred in 2Q-2013, noted by a 1.8% growth rate compared to an average growth rate of 4.5% for the prior 7 quarters over prior-year-quarters. On a geographic basis, all states (including the District of Columbia) except Delaware, Iowa, and North Dakota experienced direct premium growth. Montana led all states with an 8.3% growth rate, followed by an 8.1% increase in Texas, 7.9% in Michigan, 7.9% in Utah, and 7.6% in Colorado. On the other end of the spectrum, direct writings in North Dakota contracted by 9.2%, followed by a 7.4% decrease in Delaware, and a 2.8% decline in Iowa.

Figure 2
No. of P/C Filers



Based on companies filed to the NAIC FDR as of Oct. 1, 2013

Assumed premiums written increased 2.3% to $193.5 billion compared to $189.2 billion for the prior year-to-date. Historically, assumptions are primarily affiliated and mostly stem from intercompany pooling arrangements. At year-end 2012, 87.2% of assumed business was from affiliates, of which 72.7% were related to pooled business.

Cessions increased by 1.6% over the prior year-to-date to $221.0 billion, but a slight contraction occurred during 2Q-2013 as ceded premiums were 0.2% less than they were for the same quarter in the year prior.

Table 2.
Five-Year Premium Written Trend

($ Billions)	Chg.	2Q13	2Q12	2Q11	2Q10	2Q09
Direct	3.3%	$268.4	$259.9	$249.0	$242.8	$242.6
Assumed	2.3%	$193.5	$189.2	$178.1	$177.6	$182.4
Gross	2.9%	$461.9	$449.1	$427.1	$420.4	$425.0
Ceded	1.6%	$221.0	$217.5	$204.1	$203.3	$207.5
Net	4.0%	$240.9	$231.6	$223.0	$217.0	$217.4

Premium (Cont'd.)

The overall increase in gross writings, and the slight pull-back in cessions in second quarter, led to a 4.0% increase in net premiums written in the first half of the year to $240.9 billion from $231.6 billion for the prior year-to-date. Overall, net writings have increased for 13 consecutive quarters over the prior-year-quarters, with an average growth rate of 3.4% during this period of time.

Personal Lines

In the first half of 2013 the personal lines market experienced a direct writings growth rate of 3.6% to $133.0 billion, representing 49.6% of total direct premiums written. All three personal lines experienced year-over-year growth, led by a 3.5% or $1.9 billion increase in the private passenger auto liability line to $55.5 billion, followed by a 4.9% or $1.8 billion growth rate in auto physical damage to $38.4 billion, and a 2.4% or $0.9 billion increase in homeowners multiple peril line to $39.1 billion.

Commercial Lines

Direct premiums written in the commercial market increased by 5.2% to $102.2 billion, representing 38.1% of total direct writings and the third consecutive year where commercial premiums have increased through mid-year. The majority of the increase occurred within the top four lines, led by a 7.6% or $1.9 billion increase in workers' compensation to $26.4 billion, followed by a 7.4% or $1.8 billion increase in other liability premiums to $26.2 billion, a 5.6% or $1.0 billion increase in commercial multiple peril to $18.9 billion, and a 4.9% or $0.5 billion increase in commercial auto liability to $10.4 billion. Per the CIAB pricing index survey, workers' compensation rates experienced an average increase of 8.3% in 2Q-2013, while commercial property rates increased by 5.9%, commercial auto was 4.4% higher, and general liability rates increased 3.5% on average. The medical professional liability line experienced a decrease of just 0.2% to $5.1 billion, but represented the seventh consecutive year that direct premiums declined at mid-year.

Combined Lines

The combined lines direct premiums written decreased 3.2% to $33.2 billion (12.4% of total direct writings). The decline mostly resulted from a 58.6% or $1.0 billion decrease in other A&H coverage to $0.7 billion and a 3.7% or $0.4 billion decrease in allied lines to $11.2 billion, partly offset by an 8.1% or $0.7 billion increase in inland marine coverage to $8.7 billion. An uptick in the housing market led to a 4.5% increase in mortgage guaranty coverage to $2.3 billion.

Table 3.
Direct Premium Written ($ in Billions)

	% Chg.	$ Chg.	2Q13	2Q12
Personal Lines	3.6%	$4.6	$133.0	$128.4
Commercial Lines	5.2%	$5.0	$102.2	$97.2
Combined Lines	(3.2%)	$(1.1)	$33.2	$34.3
Property/Casualty Total	**3.3%**	**$8.5**	**$268.4**	**$259.9**

Personal Lines	% Chg.	$ Chg.	2Q13	2Q12
Private Passenger Auto Liability	3.5%	$1.9	$55.5	$53.6
Homeowners Multiple Peril	2.4%	$0.9	$39.1	$38.2
Auto Physical Damage	4.9%	$1.8	$38.4	$36.6

Commercial Lines	% Chg.	$ Chg.	2Q13	2Q12
Workers' Compensation	7.6%	$1.9	$26.4	$24.5
Other Liability	7.4%	$1.8	$26.2	$24.4
Commercial Multiple Peril	5.6%	$1.0	$18.9	$17.9
Commercial Auto Liability	4.9%	$0.5	$10.4	$9.9
Medical Professional Liability	(0.2%)	$(0.0)	$5.1	$5.1
Surety	2.3%	$0.1	$2.6	$2.5
Ocean Marine	(4.5%)	$(0.1)	$2.4	$2.6
Group A&H	0.2%	$0.0	$2.3	$2.3
Farmowners Multiple Peril	8.2%	$0.1	$1.9	$1.8
Products Liability	10.3%	$0.2	$1.8	$1.7
Credit	(18.3%)	$(0.2)	$1.0	$1.2
Boiler & Machinery	1.9%	$0.0	$0.8	$0.8
Aircraft (all perils)	(11.1%)	$(0.1)	$0.8	$0.9
Fidelity	1.7%	$0.0	$0.6	$0.6
Excess Workers' Compensation	0.6%	$0.0	$0.5	$0.5
Financial Guaranty	(26.5%)	$(0.1)	$0.3	$0.4
Burglary & Theft	11.5%	$0.0	$0.1	$0.1

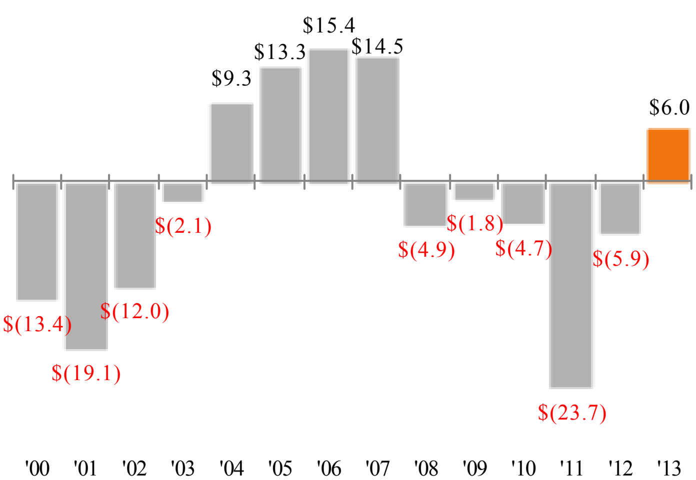
Combined Lines	% Chg.	$ Chg.	2Q13	2Q12
Allied Lines	(3.7%)	$(0.4)	$11.2	$11.7
Inland Marine	8.1%	$0.7	$8.7	$8.0
Fire	(4.2%)	$(0.3)	$6.9	$7.2
Mortgage Guaranty	4.5%	$0.1	$2.3	$2.2
Warranty	(7.9%)	$(0.1)	$1.3	$1.4
Earthquake	(1.7%)	$(0.0)	$1.2	$1.2
Aggregate Write-Ins	4.4%	$0.0	$0.8	$0.8
Other A&H	(58.6%)	$(1.0)	$0.7	$1.7
Credit A&H	(4.5%)	$(0.0)	$0.1	$0.1
International	0.6%	$0.0	$0.0	$0.0

(Ordered by 2Q-2013 DPW)

INSURANCE OPERATIONS

Industry underwriting results showed significant improvement compared to the prior year-to-date due to top line growth and lower catastrophe losses. A net underwriting gain of $6.0 billion was recorded in the first half of 2013 compared to a loss of $5.9 billion for the prior year-to-date, the first underwriting gain reported at mid-year since 2007. Net premiums earned increased by 4.0% to $232.4 billion while net losses incurred decreased 4.0% to $131.5 billion and loss adjustment expenses incurred increased 2.3% to $27.5 billion. The result was a 4.9-percentage point improvement in the net loss ratio to 68.4% compared to 73.3% for the same period in the prior year. Other underwriting expenses incurred increased by 2.6% to $67.4 billion but was surpassed by the increase in net writings, thus resulting in a 0.4-percentage point improvement in the expense ratio to 28.0%. Overall, with the inclusion of a policyholder dividend ratio of 0.5%, the industry's combined ratio sharply improved to 96.9% for the first half of 2013 compared to 102.2% for the first half of 2012.

Figure 3
Total Underwriting Income (Billions)
(For the six months ended, June 30)



Taking a look at the pure direct loss ratio (PDLR), there was an overall improvement of 3.2-percentage points to 56.6% through June 30, 2013, compared to 59.8% for the same period in the prior year, shown in **Table 4**. This improvement occurred in both the personal and commercial markets.

Personal Lines

In the personal market, direct premiums earned increased 4.4% relative to mid-year 2012 to $131.1 billion (50.7% of total), while direct losses incurred decreased 1.2% to $78.9 billion (53.9% of total), resulting in a 3.4-percentage point decrease in the PDLR to 60.2%. The majority of the

Table 4.
Pure Direct Loss Ratio

	Pt. Chg.	2Q13	2Q12	2Q11
Personal Lines	(3.4)-pts	60.2%	63.6%	72.1%
Commercial Lines	(4.4)-pts	51.9%	56.3%	58.8%
Combined Lines	1.2-pts	56.1%	54.9%	66.4%
P/C Total	**(3.2)-pts**	**56.6%**	**59.8%**	**66.5%**

Personal Lines	Pt. Chg.	2Q13	2Q12	2Q11
Private Passenger Auto Liability	(1.3)-pts	63.6%	65.0%	65.9%
Homeowners Multiple Peril	(9.4)-pts	53.1%	62.5%	88.3%
Auto Physical Damage	(0.0)-pts	62.8%	62.8%	64.4%

Commercial Lines	Pt. Chg.	2Q13	2Q12	2Q11
Workers' Compensation	(10.2)-pts	57.7%	67.9%	68.9%
Other Liability	(2.1)-pts	48.3%	50.3%	50.9%
Commercial Multiple Peril	(4.7)-pts	47.4%	52.1%	70.4%
Commercial Auto Liability	(2.1)-pts	59.4%	61.5%	54.6%
Medical Professional Liability	(2.2)-pts	46.7%	48.9%	45.4%
Ocean Marine	(3.5)-pts	35.1%	38.6%	43.6%
Surety	(3.7)-pts	20.7%	24.4%	11.8%
Group A&H	(3.4)-pts	63.4%	66.8%	58.6%
Farmowners Multiple Peril	(17.1)-pts	55.1%	72.3%	102.4%
Products Liability	4.8-pts	51.7%	46.8%	68.5%
Credit	(8.7)-pts	21.3%	30.0%	34.9%
Aircraft (all perils)	8.6-pts	47.5%	38.9%	44.6%
Boiler & Machinery	(11.6)-pts	33.3%	45.0%	35.8%
Fidelity	(2.4)-pts	48.5%	50.9%	40.6%
Excess Workers' Compensation	(8.1)-pts	94.2%	102.4%	69.4%
Financial Guaranty	40.8-pts	158.0%	117.3%	84.5%
Burglary & Theft	(16.3)-pts	7.7%	23.9%	23.6%

Combined Lines	Pt. Chg.	2Q13	2Q12	2Q11
Allied Lines	25.3-pts	80.1%	54.7%	68.0%
Inland Marine	(2.3)-pts	41.5%	43.8%	45.1%
Fire	(4.2)-pts	40.9%	45.0%	50.8%
Mortgage Guaranty	(79.0)-pts	72.4%	151.4%	176.9%
Other A&H	12.5-pts	80.5%	68.0%	85.2%
Warranty	2.7-pts	68.0%	65.3%	72.2%
Earthquake	1.2-pts	(1.7%)	(2.9%)	22.7%
Aggregate Write-Ins	(1.2)-pts	36.7%	37.9%	54.0%
Credit A&H	(0.4)-pts	11.3%	11.7%	15.4%
International	19.6-pts	45.7%	26.1%	22.2%

Insurance Operations (Cont'd.)

improvement occurred within the homeowners multiple peril line as the PDLR decreased 9.4-percentage points to 53.1% due to a 10.3% drop in direct losses incurred while direct premiums earned rose 5.5% compared to the same period in the year before. The PDLR for the private passenger auto liability line also saw some improvement, generated by a 3.7% increase in direct premiums earned that exceeded the 1.6% increase in direct losses incurred. The auto physical damage line PDLR was unchanged at 62.8%.

Commercial Lines

A sharp improvement of 4.4-percentage points in the commercial market PDLR was reported. Overall, commercial direct premiums earned increased 4.5% to $97.0 billion (37.5% of total), while direct losses incurred decreased 3.7% to $50.3 billion (34.4% of total) to produce a PDLR of 51.9%.

Nearly all commercial lines saw year-over-year improvement in the PDLR, as rate increases and growth, albeit moderate, led to higher direct earned premiums. In addition, the lack of any major catastrophes led to lower direct losses incurred. Of the top commercial lines, workers' compensation improved the most as earned premiums increased 8.5% and losses incurred decreased 7.8%, resulting a 10.2-percentage point improvement in the PDLR to 57.7%. On the opposite end of the spectrum, the financial guaranty line PDLR worsened by 40.8-percentage points to 158.0%, mostly caused by continued declines in earned premiums while losses incurred remained high.

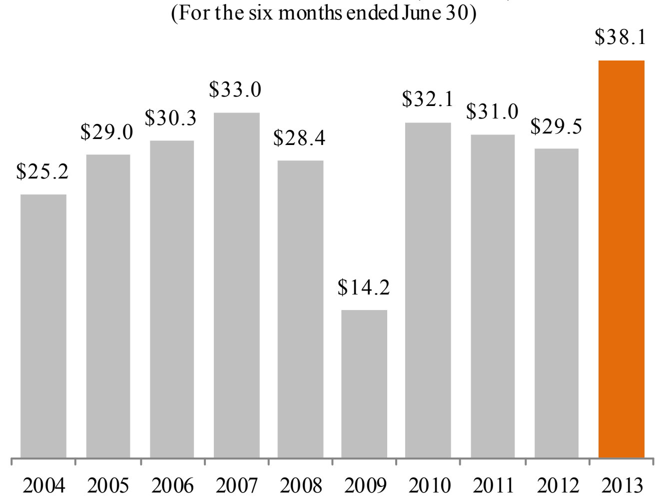
Combined Lines

The combined lines PDLR worsened by 1.2-percentage points year-over-year to 56.1%, as direct premiums earned decreased 1.1% to $30.5 billion (11.8% of total) and direct losses incurred increased 1.0% to $17.1 billion (11.7% of total). Allied lines is most to blame for the deterioration as losses incurred within this line increased 46.1%, partially related to lingering Hurricane Sandy claims, but also due to severe flooding in Colorado. The PDLR for the mortgage guaranty line recorded the most significant improvement of 79.0-percentage points to a 72.4%, a six year low at mid-year. It was noted that the majority of pure mortgage guaranty writers reported sharp declines in direct losses incurred and all of the top writers reported PDLRs of less than 100%.

Investment Operations

The industry's investment performance continues to overcome a low interest rate environment as total investment gains of $38.1 million for the first half of 2013 exceeded the gain of $29.5 million for the same period in the year prior by 28.9% and was the highest recorded investment gain in the last ten years at mid-year (**Figure 3**). The overall improvement in the current period was mostly due to a sharp increase in net realized gains to $11.1 billion compared to just $4.1 billion for the prior year-to-date. Net investment income earned was slightly higher at $27.0 billion through second quarter, compared to $25.4 billion for the comparable period in the year prior, while the annualized investment yield—a measure of net investment income earned to average cash and invested assets—showed little change at 4.0%, slightly lower than a ten-year average of 4.4%.

Figure 4
Total Investment Income (Billions)
(For the six months ended June 30)



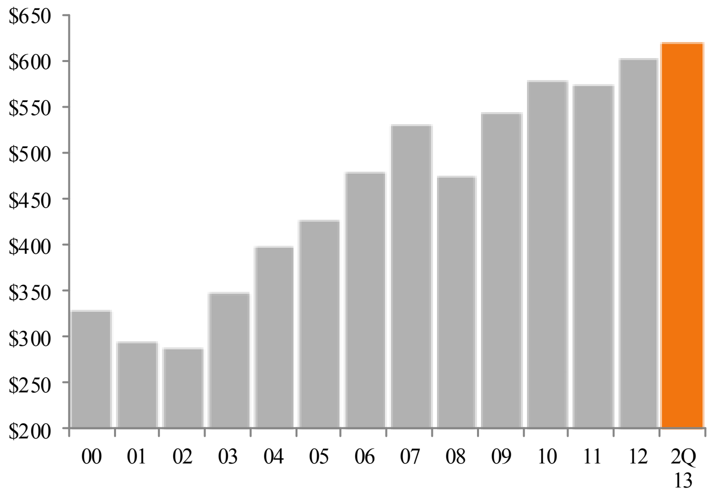
It is likely that the industry will continue to experience moderate, if not volatile investment performance for the remainder of the year and possibly into 2014. This is due to the industry's overall conservative investment strategy and the impact the Federal Reserve's $2.8 trillion quantitative easing program (QE) has on interest rates. Of the industry's $1.6 trillion in cash and invested assets, $944.0 billion (50.5% of total assets) comprised of bonds and $423.0 billion (22.6% of total asset) consisted of common stocks, of which $212.9 billion or 50.3% were affiliated. It was thought that QE3 would start winding down in the second half of the year, but so far the Fed continues buying bonds in order to boost the economy by keeping rates low. Coupled with the U.S. Government budget crisis, there remains tremendous uncertainty in the insurance industry future investment performance.

Net Income

Improved underwriting performance and higher investment profits boosted the industry's bottom line to $35.9 billion through the first six months ended in 2013, representing a 78.0% increase from $20.2 billion recorded in the same period in 2012. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized gains (losses)—improved 5.3-percentage points to an impressive 13.3%.

Policyholders' Surplus

Figure 5
P/C Industry Aggregated Surplus (Billions)



Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 2.7% since the prior year-end to a new high of $618.4 billion, shown in **Figure 4**. This increase was mostly attributed to net income of $35.9 billion and unrealized capital gains of $15.1 billion, partially offset by $19.8 billion in stockholder dividends and aggregate write-ins for losses in surplus totaling $8.0 billion. Return on surplus—a measure of annualized net income to average policyholders' surplus—increased 5.8-percentage points to 11.8% from 6.0% at the prior year-end.

Cash & Liquidity

Net cash provided by operating activities increased 39.0% to $26.4 billion at mid-year 2013 compared to $18.9 billion for the same period in the year prior. The improvement was ascribed to the increase in earned premiums that resulted in higher premiums collected net of reinsurance, and ultimately led to higher cash inflows of $266.3 million versus $254.8 million. Also, the lower incurred losses reduced benefit and loss related payments, thus mitigating the increase in cash outflows by 1.7% to $240.0 billion.

Net cash used by investing activities totaled $23.3 billion as the industry acquired $322.6 billion in total investments in the first half of the year versus selling $299.3 billion. Of the investments acquired, the majority were long-term bonds, which comprised 63.9% of the total, followed by other invested assets and stocks that comprised 26.6% and 7.8%, respectively.

Net cash used by financing and miscellaneous sources amounted to $10.1 billion, whereby the majority was used to pay stockholder dividends.

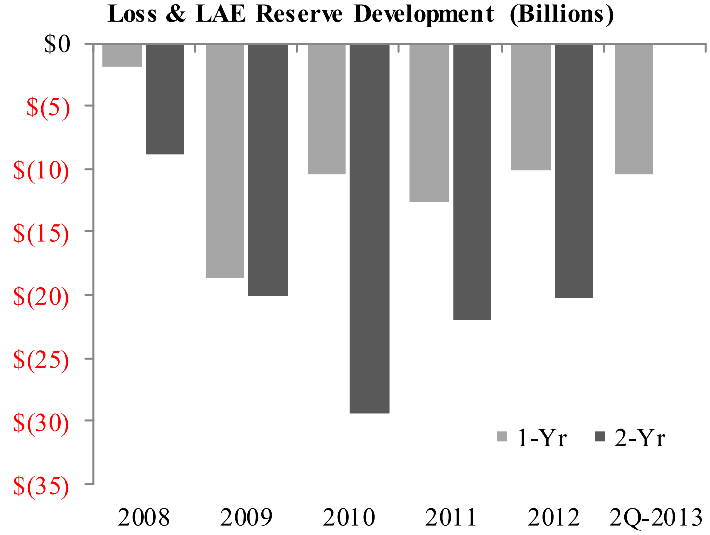
The liquidity of the property/casualty industry remained very strong, indicative of a liquidity ratio of 80.5% at June 30, 2013, which is slightly better than the 81.5% at year-end 2012. As a whole, liquid assets increased by 3.0% while adjusted liabilities increased at a lesser rate of 2.3%.

Reserves

Aggregate loss and LAE reserves increased by 0.1% or $0.6 billion to $608.9 billion in the first half of 2013 from $608.3 billion at the prior year-end. Reserve leverage improved to 98.5% compared to 101.0% at year-end 2012.

Prior year-end total loss and LAE reserves developed favorably through the first half of the current year by $10.6 billion (**Figure 5**). Overall, there were 771 property/casualty insurers that reported adverse development in the first half of 2013, while 1,220 insurers reported favorable development and 707 insurers reported zero or no development.

Figure 6
Loss & LAE Reserve Development (Billions)



CATASTROPHE UPDATE

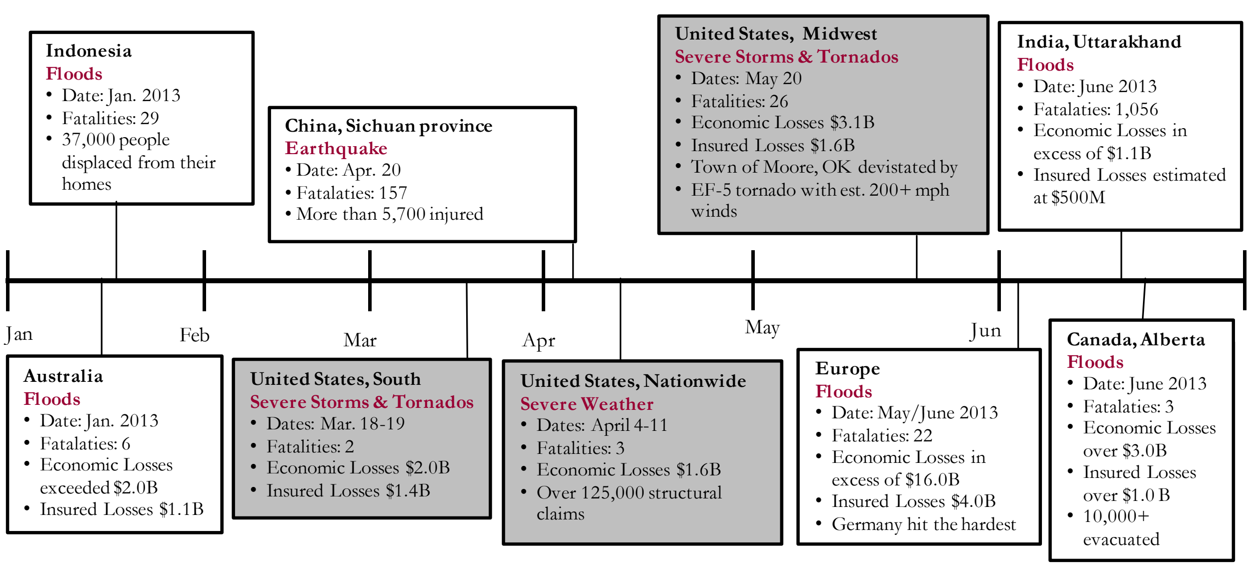
GLOBAL

According to Munich Re's 2013 Half-Year Natural Catastrophe Review, global catastrophic losses for the first six months of 2013 were significantly lower than the prior 10-year averages for both the number of fatalities and insured losses. For the first half of the year global catastrophic events resulted in 4,000 fatalities while overall losses totaled $45.0 billion compared to the last 10-year averages of 53,000 and $85.0 billion, respectively. Over 460 events occurred worldwide during this time-frame compared to 520 in the first six months of 2012 and an average of 390 for the prior ten-year period. Floods comprised the majority of worldwide disasters causing close to 50% of overall and insured losses. Of total global losses, $13.0 billion represented insured losses compared to $19.0 billion for the first half of 2012. For comparison, the average insured losses for the prior 10-year period was $22.0 billion. Floods in several European countries accounted for the most costly of all natural catastrophes in the first half of the year will overall losses estimated at over $16.0 billion and insured losses totaling $4.0 billion. Germany suffered the majority of losses, related to flooding in the months of May and June. These floods were attributed to atmospheric anomalies across central Europe which lead to sustained periods of heavy rainfall.

UNITED STATES

Winter and springtime in the U.S. come with the dual threat of winter storms and severe thunderstorms. For the first six months of 2013, this was no exception. Overall catastrophic losses in the U.S. for the first half of 2013 totaled $13.8 billion while insured losses were over $7.9 billion (accounting for approximately 60% of global insured losses for the period). Meteorological events such as winter storms, incidences of rain/hail, flooding, and tornado outbreaks lead the headlines throughout the winter and spring months. These events left numerous individuals displaced from their homes while also causing billions in structural damage across the nation. In May, a series of twenty nine severe thunderstorms and tornados caused 66 fatalities. These storms accounted for the majority of domestic catastrophic losses for the first six months of the year. These storms racked up overall losses in excess of $10.2 billion and insured losses over $6.3 billion. One tornado in particular, occurring in the Oklahoma on May 20th, registered as a category 5 on the Enhanced Fujita scale. This storm ripped through the city of Moore, a suburb of Oklahoma City, causing a 14 mile long and 1.1 mile wide path of destruction. The storm resulted in the loss of 26 lives, close to 400 injuries and the destruction of over 1,000 buildings. Overall economic and insured losses attributed to this particular tornado alone were estimated at over $3.0 billion and $1.6 billion, respectively.

The timeline below highlights some of the most significant global catastrophic events for the first half of 2013.



Title Industry

Title Industry Results

(In Millions)	%/Pt Chg.	$ Chg.	2Q 2013	2Q 2012	2Q 2011	2Q 2010	2Q 2009
Direct Premiums Written	23.3%	$1,166	$6,168	$5,003	$4,468	$4,326	$4,476
Direct Ops.	0.2%	$1	$630	$628	$658	$600	$681
Non-Aff. Agency Ops.	27.4%	$804	$3,742	$2,937	$2,746	$2,676	$2,732
Aff. Agency Ops.	25.0%	$360	$1,797	$1,437	$1,064	$1,050	$1,063
Premiums Earned	21.3%	$1,072	$6,106	$5,035	$4,529	$4,268	$4,403
Loss & LAE Incurred	(2.0)%	$(8)	$403	$411	$518	$486	$380
Operating Exp Incurred	18.1%	$895	$5,846	$4,951	$4,544	$4,472	$4,785
Net Operating Gain/(Loss)	63.8%	$130	$333	$203	$(6)	$(185)	$(203)
Net Inv. Income Earned	(20.5)%	$(30)	$115	$144	$129	$165	$261
Net Realized Gain/(Loss)	230.1%	$14	$21	$6	$25	$28	$(53)
Net Inv. Gain (Loss)	(10.1)%	$(15)	$135	$151	$154	$193	$208
Net Income	45.8%	$117	$372	$255	$127	$47	$(10)
Net Unrealized Gain/(Loss)	(94.1)%	$(82)	$5	$87	$43	$(43)	$(56)
Loss Ratio	(1.6)-pts		6.6%	8.2%	11.4%	11.4%	8.6%
Expense Ratio	(2.5)-pts		95.9%	98.4%	100.4%	104.8%	108.7%
Combined Ratio	(4.1)-pts		102.5%	106.6%	111.8%	116.2%	117.3%
Net Cash from Operations	(16.0)%	$(38)	$199	$237	$(66)	$(18)	$11

Premium

Title insurers in aggregate continued to show signs of recovery in the first half of 2013 with a 23.3% increase in direct premiums written to $6.2 billion compared to $5.0 billion in the first half of 2012. Direct premiums have increased for six consecutive quarters over prior-year-quarters. Title business is produced almost exclusively on a direct basis, either through direct operations or agency operations (affiliated or non-affiliated). Of total direct writings, 60.7% and 29.1%, respectively, were produced by non-affiliated and affiliated agency operations which handle all aspects of the title search process. The remaining 10.2% being produced directly by the title companies handling the title search process.

Profitability

The title industry reported positive underwriting results with net operating gains totaling $333 million for the first six months of 2013, compared to a gain of $203.0 million for the prior year period. The improvement was due to a 21.3% increase in title premiums earned from the prior year period that surpassed a 18.1% rise in operating expenses incurred over the same time frame. The resulting impact was a 2.5-percentage point decline in the expense ratio to 95.9%. Loss and loss adjustment expenses were marginally reduced by 2.0% to $403 million, which paired with the increase premiums earned and resulted in a 1.6-percentage point improvement in the net loss ratio to 6.6%. The overall improvement in the loss and expense ratios led to a 4.1-percent improvement in the combined ratio to 102.5%.

Net investment income gains totaled $135 million representing a decline of 10.1% from the prior year period as the industry struggled to derive gains in the ongoing low interest rate environment.

Capital & Surplus

Industry aggregated policyholders' surplus increased 19.5% from the prior year-end to $4.0 billion. The increase was primarily the result of net income totaling $372 million, aggregate write-in for gains totaling $23.0 million, unrealized capital gains of $5.0 million, and $3.1 million paid-in capital. Partially offsetting the gains were $138.8 million in stockholder dividends, a $41.5 million increase in non-admitted assets, a $25.6 million increase in net deferred income taxes, and $10.0 million unrealized foreign exchange losses.

Cash & Liquidity

Net cash from operating activities declined 16.0% relative to the prior year period to $199 million. The decrease came as a result of rising commission and expenses and increasing income taxes, which produced a $1.2 billion increase in cash outflows. Cash inflows rose at a lesser amount of $1.1 billion, results of increasing premiums collected. The industry's liquidity position strengthened 13.8-percentage points to 78.1%, results of a 9.8% increase to liquid assets paired with a 6.7% decline in adjusted liabilities.