2014 Mid-Year Property/Casualty & Title Insurance Industry Report

National Association of Insurance Commissioners

Property/Casualty Industry at a Glance

Net profits in the U.S. property/casualty insurance industry fell 20.1% to $28.5 billion for the first half of 2014 compared to a net profit of $35.7 billion for the first half of 2013. The decline was attributed to a sharp decrease in underwriting profits, mainly due to higher incurred losses resulting from winter storms and lower investment profits as the industry's annualized investment yield fell to a ten-year low. Notwithstanding these items, operating performance was positive for the second consecutive mid-year, leading to a 2.3% increase in aggregated policyholders' surplus to a new record high of $702.3 billion. Capital adequacy remained abundant, evidenced by net writings leverage reaching a 10-year low. Market competition resulted in lower premium rates particularly in the commercial market, where rates have fallen in each of the last five quarters. In addition to lower rates, some insurers sought to expand market share through mergers and acquisitions, which has attributed to a six-year decline in the total number of property/casualty filers. Net cash from operating activities was slightly lower relative to the same period a year ago but remained positive at $23.3 billion. Industry liquidity remained strong at 78.2%.

Table 1 - Property & Casualty Insurance Industry Results

($ in Billions)	Chg.	2Q14	2Q13	2Q12	2Q11	2Q10	2Q09	2Q08	2Q07	2Q06	2Q05
Writings											
Direct Premiums Written	4.9%	$282.4	$269.1	$259.9	$249.0	$242.8	$242.6	$251.1	$254.9	$251.6	$229.1
Assumed Premiums Written	14.1%	$221.9	$194.5	$189.2	$178.1	$177.6	$182.4	$186.5	$184.6	$180.5	$146.8
Net Premiums Written	4.0%	$250.9	$241.4	$231.6	$223.0	$217.0	$217.4	$228.3	$229.5	$230.0	$211.1
Operations											
Net Premiums Earned	4.2%	$242.7	$232.9	$223.4	$216.8	$211.9	$216.6	$224.3	$223.4	$221.0	$203.7
Net Loss & LAE Incurred	7.6%	$171.5	$159.5	$163.8	$177.7	$155.8	$158.6	$167.4	$147.5	$146.4	$136.7
Other Underwriting Expenses	2.5%	$69.3	$67.6	$65.6	$62.6	$61.1	$60.6	$62.1	$61.1	$59.0	$53.4
Net Underwriting Gain/(Loss)	(72.7%)	$1.6	$5.8	($5.9)	($23.7)	($4.7)	($1.8)	($4.9)	$14.5	$15.4	$13.3
Net Loss Ratio	2.2 pts	70.7%	68.5%	73.3%	82.0%	73.5%	73.2%	74.6%	66.0%	66.2%	67.1%
Expense Ratio	(0.4) pts	27.6%	28.0%	28.3%	28.1%	28.1%	27.9%	27.2%	26.6%	25.6%	25.3%
Dividend Ratio	0.0 pts	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%
Combined Ratio	1.8 pts	98.8%	97.0%	102.2%	110.6%	102.1%	101.5%	102.4%	93.1%	92.3%	92.8%
Net Investment Income Earned	(6.8%)	$25.2	$27.0	$25.4	$27.1	$27.8	$25.6	$29.0	$29.2	$29.4	$26.0
Net Realized Gain/(Loss)	(31.5%)	$7.6	$11.1	$4.1	$3.9	$4.4	($11.5)	($0.6)	$3.8	$0.9	$3.0
Investment Yield	(0.5) pts	3.5%	4.0%	3.9%	4.1%	4.4%	4.3%	4.5%	4.7%	5.1%	5.1%
Net Cash from Operations	(11.6%)	$23.3	$26.4	$18.9	$14.2	$21.3	$17.0	$30.8	$36.8	$41.6	$39.1
Net Income	(20.1%)	$28.5	$35.7	$20.1	$6.6	$22.2	$6.9	$17.1	$34.4	$33.8	$32.0
Return on Revenue	(2.8) pts	10.4%	13.2%	8.0%	2.6%	9.1%	3.0%	6.8%	13.4%	13.5%	13.8%
Capital & Surplus		**2Q14**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Policyholders' Surplus*	2.3%	$702.3	$686.3	$615.9	$578.3	$587.6	$541.1	$480.0	$547.4	$515.0	$450.9
Return on Surplus		-	14.6%	6.9%	1.0%	8.8%	9.7%	(13.9%)	9.4%	14.2%	10.9%

*Adjusted to remove stacked insurance entities

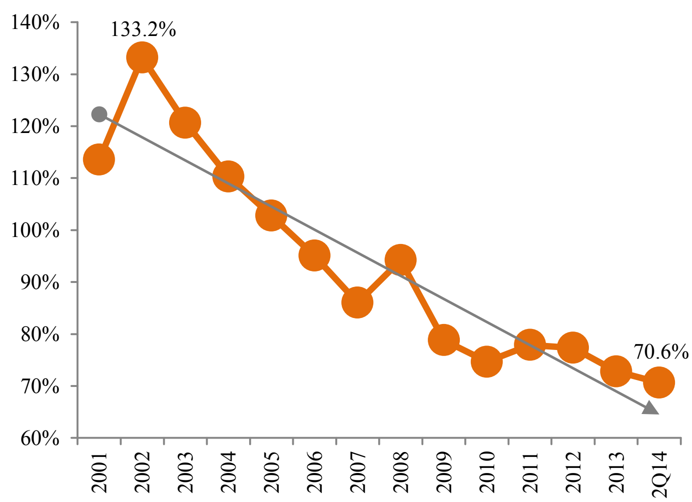
DISCLAIMER

The NAIC 2014 Mid-Year Property & Casualty and Title Insurance Industry Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of June 30, 2014, 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.

Market Conditions

The U.S. property/casualty insurance industry has benefitted from the lack of any major catastrophe, particularly a hurricane (category 3 or higher) making landfall in the U.S. since Hurricane Wilma in October 2005. The result was improved profit margins and record high surplus, that attributed to greater market competition. For the first six months of 2014 the industry recorded a net underwriting profit of $1.6 billion—the second consecutive year the industry produced an underwriting profit at mid-year. The positive underwriting performance partially offset a decline in investment profits, and ultimately aided the industry's bottom line. Policyholders' surplus (adjusted to remove stacked insurance entities) rose to $702.3 billion—a record high that follows record highs achieved in each of the previous four years. The substantial growth in capital in relation to net writings is a good indication that capital adequacy remains abundant, as the net writings leverage has continued to strengthen since 2002 to a new low of 70.6% at 2Q-2014 rolling year (see **Figure 1**).

Fig. 1.
Net Writings Leverage



To a certain extent the abundant capital for some insurers not only allowed them to write more business, but has also attributed to an uptick in mergers and acquisitions activity. As seen in **Figure 2**, the total number of U.S. property/casualty filers have steadily declined since 2008, with an overall net decline of 190 filers. Of this decline, 142 were due to mergers/acquisitions (8 reported mergers in the first half of 2014); 81 voluntarily exited the market; 59 insurers were active but in liquidation; and 23 were active but in rehabilitation. Offsetting a portion of the decline was 182 new filers since 2008 (7 new filers in 2014), and 51 insures that filed in 2008 and remain active but have not filed a June 30, 2014 statement.

Table 2 - Premium Trend

($ Billions)	Chg.	2Q14	2Q13	2Q12	2Q11	2Q10
Direct	4.9%	$282.4	$269.1	$259.9	$249.0	$242.8
Assumed	14.1%	$221.9	$194.5	$189.2	$178.1	$177.6
Gross	8.8%	$504.3	$463.6	$449.1	$427.1	$420.3
Ceded	14.0%	$253.3	$222.2	$217.5	$204.1	$203.3
Net	4.0%	$250.9	$241.4	$231.6	$223.0	$217.0

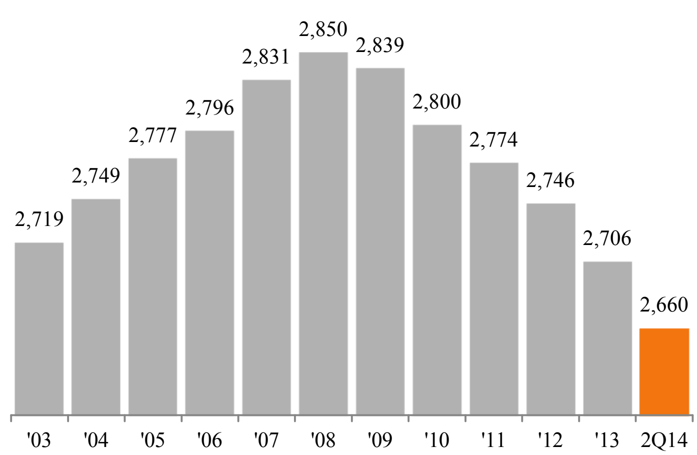
Premium

As shown in **Table 2**, direct premiums written increased 4.9% to $282.4 billion for the first six months of 2014 compared to $269.1 billion for the same period in 2013. Sequentially, direct writings increased for 17 consecutive quarters over prior-year-quarters, which accelerated to a 6.0% growth rate in 2Q-2014 compared to an average 3.6% growth rate during this 17-quarter period of higher premium volume. All three markets, personal, commercial, and combined lines experienced year-over-year growth.

The personal lines market experienced a 5.6%, or $7.5 billion increase in direct writings to $140.6 billion (49.8% of total direct writings). All three personal lines showed year-over-year increases, led by a 7.8%, or $3.1 billion increase within homeowners' to $42.3 billion, followed by a 6.0%, or $2.3 billion increase in auto physical damage premium to $40.7 billion and a 3.8%, or $2.1 billion increase in private passenger auto liability to $57.6 billion.

Despite the premium rate contraction in the commercial market, commercial direct writings increased 4.9%, or $5.0 billion year-over-year to $107.7 billion, representing 38.2% of total direct writings.

Fig. 2.
No. of P/C Filers



Based on companies filed to the NAIC FDR as of Sept. 18, 2014

PREMIUM (CONT'D.)

According to a recent Commercial P/C Pricing Survey by The Council of Insurance Agents' & Brokers (CIAB), average commercial rates contracted by 0.5% in 2Q-2014 and have been lower for the last five quarters. The CIAB attributed the lower rates to strong competition and plenty of capacity, and indicated that the second half will depend on catastrophe losses, profitability, and capacity.

The top four commercial lines, workers compensation, other liability, commercial multiple peril, and commercial auto liability all experienced moderate growth in the first half of 2014 with respect to direct writings. Medical professional liability premiums fell for the eighth consecutive mid-year, with a 10.9% decline in the current period to $4.6 billion. Financial guaranty premiums also continue to slide, a trend that started with the 2008 recession.

The combined lines direct premiums writings increased 2.3% to $34.0 billion (12.0% of total direct premiums written). The increase was mostly attributed to a 9.6% increase in inland marine coverage to $9.5 billion and a 3.2% increase in allied lines to $11.6 billion. Other notable combined lines included a 4.5% decrease in mortgage guaranty premiums to $2.2 billion and fire premiums were flat at $6.9 billion.

On a geographic basis, all states/territories, except Alaska and Puerto Rico, experienced year-over-year direct premium growth. American Samoa and Northern Mariana Islands led the way in terms of growth rates, followed by North Dakota, Colorado, and Georgia. In terms of market share, California was the largest at 11.4%, followed by Texas—8.4%, Florida—7.9%, and New York—7.4%.

Assumed writings rose 14.1% relative to the first half of 2013 to $221.9 billion for the first half of 2014. The majority of this growth occurred within one insurer as a result of two new affiliated reinsurance agreements. In 2013, 87.2% of assumed business was intercompany assumptions, of which 72.7% was pooled business.

Ceded premiums written increased 14.0% to $253.3 billion. This large scale increase was primarily the other side of the equation of the above-mentioned new reinsurance agreements within one particular group.

Net writings increased 4.0% to $250.9 billion and has increased 17 consecutive quarters over prior-year-quarters with an overall 3.6% average growth rate during this period of time.

Table 3 - Direct Premium Written by State

State/Territory	No. of Domestics	Total DPW	Market Share	Chg. in DPW	Direct Paid Loss
Alabama	18	$3,823	1.4%	2.8%	$2,144
Alaska	5	$948	0.3%	(1.4%)	$342
Arizona	57	$4,556	1.6%	5.7%	$2,275
Arkansas	11	$2,263	0.8%	2.0%	$1,332
California	106	$32,234	11.4%	6.4%	$16,150
Colorado	15	$4,868	1.7%	7.5%	$2,776
Connecticut	71	$3,912	1.4%	1.8%	$1,999
Delaware	102	$984	0.3%	5.4%	$559
Dist. of Columbia	38	$829	0.3%	1.5%	$331
Florida	124	$22,408	7.9%	3.0%	$9,504
Georgia	34	$8,016	2.8%	6.8%	$4,654
Hawaii	32	$1,119	0.4%	4.8%	$430
Idaho	9	$1,116	0.4%	3.8%	$568
Illinois	193	$11,239	4.0%	2.3%	$7,137
Indiana	69	$5,050	1.8%	5.8%	$2,751
Iowa	68	$2,881	1.0%	5.1%	$2,491
Kansas	24	$2,891	1.0%	2.9%	$1,413
Kentucky	12	$3,277	1.2%	2.6%	$1,736
Louisiana	29	$5,431	1.9%	4.4%	$2,549
Maine	10	$990	0.4%	3.1%	$543
Maryland	33	$5,008	1.8%	2.2%	$2,962
Massachusetts	49	$6,554	2.3%	3.7%	$3,108
Michigan	73	$8,639	3.1%	6.4%	$5,416
Minnesota	39	$5,104	1.8%	5.2%	$2,845
Mississippi	13	$2,335	0.8%	3.8%	$1,386
Missouri	46	$4,971	1.8%	4.7%	$2,954
Montana	19	$954	0.3%	3.4%	$656
Nebraska	33	$2,016	0.7%	5.0%	$1,458
Nevada	32	$2,110	0.7%	4.8%	$1,248
New Hampshire	48	$1,101	0.4%	4.4%	$535
New Jersey	68	$9,972	3.5%	5.3%	$5,656
New Mexico	13	$1,471	0.5%	3.6%	$738
New York	177	$20,769	7.4%	2.8%	$11,328
North Carolina	56	$6,778	2.4%	3.7%	$3,451
North Dakota	12	$907	0.3%	7.9%	$519
Ohio	131	$7,347	2.6%	3.6%	$3,806
Oklahoma	33	$3,641	1.3%	4.4%	$2,041
Oregon	16	$2,837	1.0%	4.5%	$1,539
Pennsylvania	164	$10,978	3.9%	3.3%	$6,567
Rhode Island	22	$1,044	0.4%	4.5%	$590
South Carolina	49	$3,980	1.4%	4.4%	$2,092
South Dakota	14	$944	0.3%	6.6%	$569
Tennessee	19	$5,089	1.8%	3.4%	$2,564
Texas	178	$23,715	8.4%	5.7%	$11,654
Utah	8	$1,920	0.7%	5.5%	$916
Vermont	98	$721	0.3%	1.9%	$328
Virginia	18	$6,026	2.1%	3.7%	$2,952
Washington	13	$5,031	1.8%	5.1%	$2,582
West Virginia	16	$1,411	0.5%	2.6%	$733
Wisconsin	110	$4,752	1.7%	3.4%	$2,645
Wyoming	1	$527	0.2%	3.0%	$238
American Samoa	0	$1	0.0%	3,739.7%	$0
Guam	8	$127	0.0%	1.5%	$64
Puerto Rico	21	$912	0.3%	(2.5%)	$349
U.S. Virgin Islands	3	$48	0.0%	6.8%	$14
N. Mariana Islands	0	$6	0.0%	8.2%	$2

($ in Millions)

Insurance Operations

Underwriting operations were profitable for the second consecutive mid-year despite higher than usual incurred losses resulting from winter storms. A net underwriting gain of $1.6 billion was recorded for the first six months of 2014, although 72.7% short of the underwriting gain recorded for the first six months of 2013 totaling $5.8 billion. Net premiums earned were higher by 4.2%, or $9.9 billion to $242.7 billion but net losses incurred increased at a higher rate of 8.4%, or $11.1 billion to $142.9 billion. Loss expenses incurred increased 2.5% to $28.6 billion and other underwriting expenses incurred rose to $69.3 billion compared to $67.6 billion for the prior year-to-date. The effect on the combined ratio was a 1.8-percentage point increase to 98.8%, represented by a 70.7% net loss ratio, 27.6% expense ratio and a 0.6% policyholders' dividend ratio. **Figure 3** below depicts industry underwriting results for the last ten comparable periods.

Fig. 3.

P/C Mid-Year Underwriting Performance

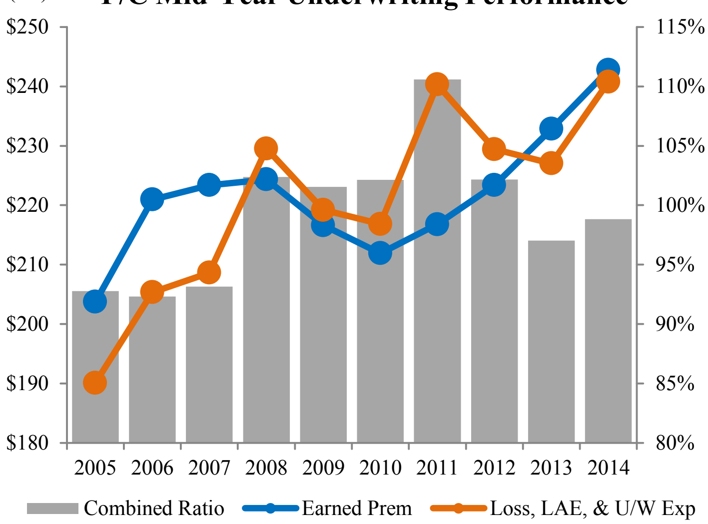


Table 4 shows the industry's profitability by line of business on a direct basis. As seen, the overall pure direct loss ratio (PDLR) increased 1.3-percentage points to 57.9% as direct premiums earned increased 4.5% to $270.9 billion while direct losses incurred increased 6.9% to $156.9 billion.

Personal Lines

In the personal lines market, direct premiums earned increased 4.7% to $137.3 billion (50.7% of total earned premiums) and direct losses incurred increased 9.4% to $86.3 billion (55.0% of total losses incurred), resulting in a 2.7-percentage point deterioration in the PDLR to 62.9%.

Table 4 - Pure Direct Loss Ratio

	Pt. Chg.	2Q14	2Q13	2Q12
Personal Lines	2.7-pts	62.9%	60.2%	63.6%
Commercial Lines	2.1-pts	54.1%	52.0%	56.3%
Combined Lines	(7.4)-pts	48.7%	56.1%	54.9%
Total	**1.3-pts**	**57.9%**	**56.6%**	**59.8%**

Personal Lines	**Pt. Chg.**	**2Q14**	**2Q13**	**2Q12**
Private Passenger Auto Liability	1.1-pts	64.7%	63.6%	65.0%
Homeowners Multiple Peril	4.9-pts	57.9%	53.0%	62.5%
Auto Physical Damage	2.7-pts	65.5%	62.8%	62.8%

Commercial Lines	**Pt. Chg.**	**2Q14**	**2Q13**	**2Q12**
Workers' Compensation	1.2-pts	59.1%	57.9%	67.9%
Other Liability	2.6-pts	50.9%	48.3%	50.3%
Commercial Multiple Peril	6.4-pts	54.0%	47.6%	52.1%
Commercial Auto Liability	2.7-pts	62.4%	59.7%	61.5%
Medical Professional Liability	0.5-pts	47.2%	46.7%	48.9%
Ocean Marine	1.4-pts	36.5%	35.1%	38.6%
Surety	(3.5)-pts	17.2%	20.7%	24.4%
Group A&H	2.2-pts	65.7%	63.4%	66.8%
Farmowners Multiple Peril	21.9-pts	77.0%	55.1%	72.3%
Products Liability	(2.8)-pts	48.9%	51.6%	46.8%
Credit	3.2-pts	24.5%	21.3%	30.0%
Aircraft (all perils)	9.5-pts	57.0%	47.5%	38.9%
Boiler & Machinery	1.2-pts	34.7%	33.5%	45.0%
Fidelity	(1.8)-pts	46.7%	48.5%	50.9%
Excess Workers' Compensation	(15.8)-pts	78.2%	94.0%	102.4%
Financial Guaranty	(78.7)-pts	79.3%	158.0%	117.3%
Burglary & Theft	(0.3)-pts	7.3%	7.7%	23.9%

Combined Lines	**Pt. Chg.**	**2Q14**	**2Q13**	**2Q12**
Allied Lines	(24.9)-pts	55.1%	80.0%	54.7%
Inland Marine	3.6-pts	45.0%	41.4%	43.8%
Fire	6.7-pts	47.7%	41.0%	45.0%
Mortgage Guaranty	(34.1)-pts	38.3%	72.4%	151.4%
Other A&H	25.8-pts	106.3%	80.5%	68.0%
Warranty	(0.3)-pts	67.7%	68.0%	65.3%
Earthquake	3.4-pts	1.7%	(1.7%)	(2.9%)
Aggregate Write-Ins	5.9-pts	42.7%	36.7%	37.9%
Credit A&H	(0.4)-pts	10.9%	11.3%	11.7%
International	26.9-pts	72.6%	45.7%	26.1%

Insurance Operations (Cont'd.)

The homeowners multiple peril and auto physical damage lines experienced double digit increases in direct losses incurred over the prior year-to-date, which led to a 4.9-percentage point and 2.7-percentage point deterioration in the PDLRs to 57.9% and 65.5%, respectively. The PDLR for private passenger auto liability increased 1.1-percentage points to 64.7%.

Commercial Lines

The PDLR in the commercial market worsened by 2.1-percentage points, but remained low at 54.1%. The following lines comprised 85.8% of total commercial direct premiums earned: workers compensation, other liability, commercial multiple peril, commercial auto liability, and medical professional liability. All five of these lines experienced little to moderate deterioration in the PDLRs, as all but medical professional liability saw a material increase in direct losses incurred. The deterioration in medical professional liability was caused by ongoing decreases in earned premiums.

Financial guaranty showed remarkable improvement as the PDLR fell 78.7-percentage points to 79.3% due to a sharp decline in incurred losses. The PDLR for excess workers compensation improved 15.8-percentage points to 78.2%.

Combined Lines

In the combined lines market a 7.4-percentage point improvement in the PDLR to 48.7% was attributed to a 10.3% decline in direct losses incurred to $15.4 billion and a 3.3% increase in direct premiums earned to $31.6 billion. The majority of this improvement was attributed to allied lines, as incurred losses fell to $5.6 billion from $7.9 billion for the prior year-to-date. This resulted in a 24.9-percentage point improvement in the PDLR to 55.1%. Mortgage guaranty PDLR improved 34.1-percentage points to just 38.3%, due to a 47.0% decrease in direct losses incurred.

Investment Operations

Investment performance continued on a downward trajectory due to a low interest rate environment generated by the Federal Reserve's (Fed) three-round quantitative easing program, whereby the Fed purchased approximately $4 trillion of Treasury bonds and mortgage-backed securities since the program was launched in 2009. During this time the federal funds rate sustained record lows of just 0-0.25% where it has held since December 2008. Given the conservative investment philosophy in the insurance industry, this greatly attributed to investment yields falling 160-basis points from a ten-year high of 5.1% in 2006 to a low of just 3.5% through June 30, 2014, seen in **Figure 4**.

Fig. 4.
P/C Mid-Year Investment Performance

In December of last year the Fed began to reduce the amount of purchases and has continued to gradually reduce purchases in 2014. However, despite expectations of the program ending soon, the Fed has not given any confirmation of an end date, but has indicated that rates will continue to remain low.

Looking at the change in the industry's investment yield from the prior year-to-date, net investment income earned decreased 6.8% to $25.2 billion while average cash and invested assets (adjusted to remove stacked insurance entities) increased 5.6% since the prior year-end to $1.5 trillion. This resulted in a 50-basis point decline in investment yield.

Net realized capital gains decreased 31.5% to $7.6 billion for the first half of 2014 compared to $11.1 billion for the first half of 2013.

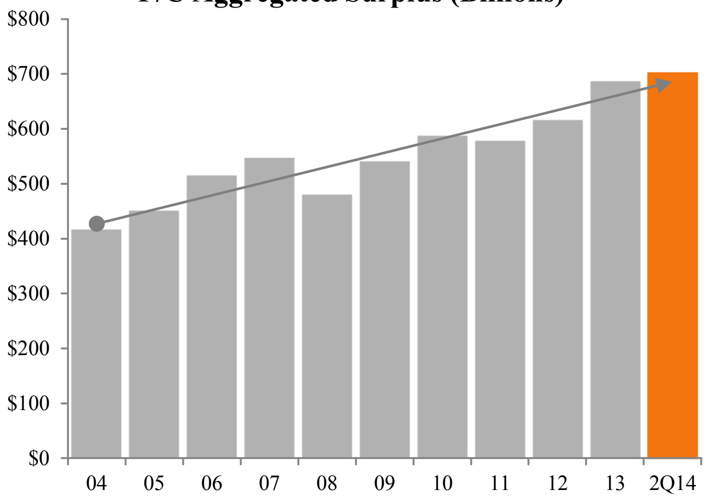
Net Income

The industry recorded a net profit of $28.5 billion for the first half of 2014 compared to a profit of $35.7 billion in the first half of 2013. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized gains (losses)—was 10.4%, down 2.8-percentage points from a year ago.

Policyholders' Surplus

Industry aggregated policyholders' surplus (adjusted to remove stacked insurance entities) increased 2.3% since the prior year-end to a new high of $702.3 billion, shown in **Figure 5**. This increase was mostly attributed to net income of $28.5 billion, unrealized capital gains of $13.1 billion, and $3.5 billion in paid-in surplus, partially offset by $17.4 billion in stockholder dividends.

Fig. 5.
P/C Aggregated Surplus (Billions)

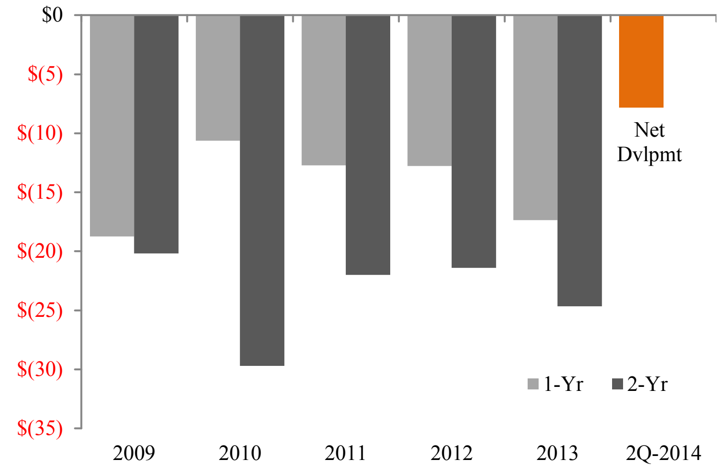


Cash & Liquidity

Net cash provided by operating activities totaled $23.3 billion for the first six months of 2014 compared to $26.4 billion for the same period in the year prior. The slight decrease in cash flow was primarily attributed to higher commissions and expenses paid, and higher benefit and loss related payments that together resulted in a 2.2% increase in cash outflows. Cash inflows were flat as an increase in premiums collected due to higher net earned premiums was offset by lower net investment and miscellaneous income.

Industry liquidity increased by 0.3-percentage points but remained strong at 78.2%. The slight deterioration was caused by a 3.2% growth in affiliated investments in bonds, stocks, and short-term investments, which are deducted as a component of liquid assets. However, after removing affiliated investments, liquid assets increased 1.3% to $1.3 trillion while adjusted liabilities increased 1.7% to $1.0 trillion.

Fig. 6.
Reserve Development (Billions)



Reserves

Loss and LAE reserves increased 1.1% or $6.8 billion to $611.0 billion at June 30, 2014, from $604.1 billion at the year-end 2013. Despite the increase in reserves, reserve leverage strengthened 1.0-percentage points to 87.0% due to the higher growth in surplus. **Figure 6**, shows loss and LAE reserve development for the last five years. Net development for the first half of 2014 showed a redundancy of $7.8 billion and 74.7% of property/casualty filers reported favorable reserve development through June 30, 2014, while 27.1% reported adverse development.

Reinsurance

Based on 2013 data, the professional reinsurance market consists of 29 insurers that collectively comprised 75% of non-affiliated assumptions. In the first half of 2014, those reinsurers had $71.7 billion in aggregated assumptions—which equates to 32.3% of total assumptions. The professional reinsurance market experienced an adverse net reserve development totaling $6.2 billion, but managed to produce a net underwriting profit of $1.0 billion at mid-year. This, along with a net investment gain of $8.7 billion resulted in a net profit of $7.8 billion. Cash flow from operations was positive at $16.1 billion and liquidity was borderline high at 97.6%.

With respect to all reinsurance (professional market and affiliated reinsurance market) amounts recoverable on paid losses and LAE totaled $30.0 million at June 30, 2014, which equated to 4.3% of industry adjusted policyholders' surplus.

CATASTROPHE UPDATE

A Global Perspective

According to Munich Re's 2014 Half-Year Natural Catastrophe Review, global catastrophic losses were again below average when compared to the prior 10-years. For the first half of the year, 490 global loss events resulted in 2,700 fatalities with overall economic losses of $42.0 billion down from $65.8 billion for the comparable period last year and a prior 10-year average of $94.5 billion. Global economic losses were distributed mostly in the three geographic regions with 35% occurring in the United States, 30% in Asia and 30% in Europe. Global insured losses for the same time frame totaled $17.0 billion compared to $21.1 billion for the prior year period and a prior 10-year average of $24.9 billion. Almost 60% of insured losses were related to events in North America. The increase in insured losses compared the same period in 2013 was attributed to an increase in catastrophic events in areas with higher insurance penetration. This was evident as nearly 40% of global overall losses were covered by insurance, compared to a 30% average for the prior 10-years.

Japan Snowfall

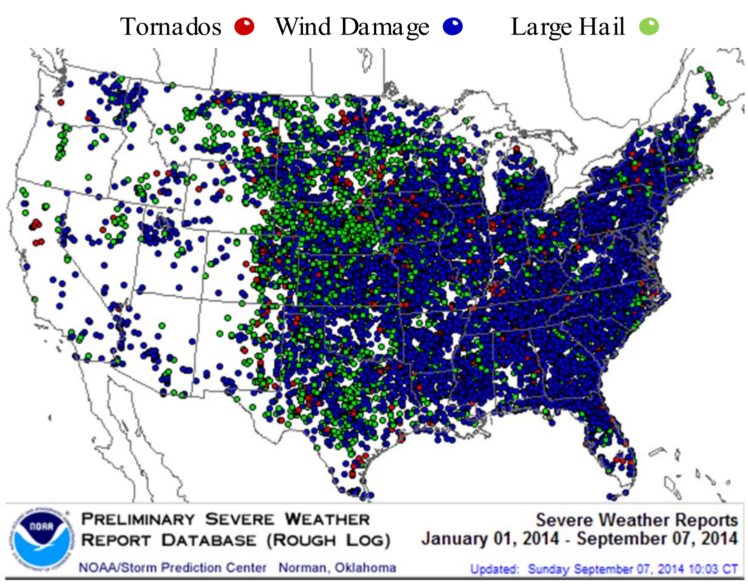
In February of this year, severe snowstorms swept across Japan killed over 50 people and leaving many more injured. One storm alone blanketed Tokyo in over 10 inches of snow and requiring the evacuation of over 2,150 people from their homes for fear of houses collapsing from the weight of the snow. Sections of highways were closed as hundreds of cars were stuck due to the heavy snow with traffic congestion extending for several kilometers. While in some parts of the country snow accumulations reached upwards of 35 inches. Overall economic losses for the February storms totaled $5.0 billion while insured losses were in excess of $2.5 billion, the largest single catastrophic event globally.

Storms in Europe

Thunderstorms and hail affected parts of Germany, France, Belgium, and the Netherlands in June. Germany was hardest hit by the severe weather with fires reported due to lightning strikes, major roads were blocked due to fallen trees, and power outages were experienced in multiple parts of the country. The storms resulted in overall economic losses of $2.8 billion and insured losses totaling $2.5 billion.

United States of America

For the first six months of 2014, the U.S. again experienced the highest level of aggregated catastrophe-related losses of any country, due in large part to its expansive land mass and well developed and insured infrastructure. On the positive side, as with global losses, the first six months of the year experienced lower than average catastrophe related losses than had been seen in the recent past. The U.S. experienced an estimated $9.1 billion in insured catastrophe losses from January 1 through June 30, compared to prior a 10-year average of $11.0 billion. A total of 67 weather related events occurred during the six month period resulting in 195 fatalities, and estimated $13.3 billion in overall economic losses. The majority of losses stemmed from a total of 33 thunderstorms that caused estimated overall economic losses totaling $9.1 billion (68.4% of total) and insured losses totaling $6.7 billion (73.6% of total). Winter storms and cold spells comprised the second largest portion of U.S. catastrophic losses with 11 events causing estimated overall economic losses totaling $3.4 billion (25.6% of total) and economic losses totaling $2.4 billion (26.4% of total).



Title Industry

Title Industry Results

(In Millions)	%/Pt Chg.	$ Chg.	2Q 2014	2Q 2013	2Q 2012	2Q 2011	2Q 2010
Direct Premiums Written	(16.7)%	$(1,033)	$5,135	$6,168	$5,003	$4,468	$4,326
Direct Ops.	(14.0)%	$(88)	$541	$630	$628	$658	$600
Non-Aff. Agency Ops.	(15.4)%	$(577)	$3,165	$3,742	$2,937	$2,746	$2,676
Aff. Agency Ops.	(20.5)%	$(368)	$1,429	$1,797	$1,437	$1,064	$1,050
Premiums Earned	(15.7)%	$(958)	$5,149	$6,106	$5,035	$4,529	$4,268
Loss & LAE Incurred	(0.3)%	$(1)	$402	$403	$411	$518	$486
Operating Exp Incurred	(15.1)%	$(883)	$4,963	$5,846	$4,951	$4,544	$4,472
Net Operating Gain/(Loss)	(49.8)%	$(166)	$167	$333	$203	$(6)	$(185)
Net Inv. Income Earned	2.1%	$2	$117	$115	$144	$129	$165
Net Realized Gain/(Loss)	(155.8)%	$(32)	$(11)	$21	$6	$25	$28
Net Inv. Gain (Loss)	(21.9)%	$(30)	$106	$135	$151	$154	$193
Net Income	(43.2)%	$(161)	$211	$372	$255	$127	$47
Loss Ratio	1.2-pts		7.8%	6.6%	8.2%	11.4%	11.4%
Expense Ratio	0.6-pts		96.4%	95.9%	98.4%	100.4%	104.8%
Combined Ratio	1.8-pts		104.2%	102.5%	106.6%	111.8%	116.2%
Net Unrealized Gain/(Loss)	2,050.3%	$105	$110	$5	$87	$43	$(43)
Net Cash from Operations	(53.9)%	$(107)	$92	$199	$237	$(66)	$(18)

Premium

The U.S. housing market recovery has slowed during the first half of 2014. The cool down was evident in the Title industry as direct premiums written were down 16.7% through the first half of 2014 to $5.1 billion. The Title industry produces business almost entirely on a direct basis, either through direct operations or agency operations. Of total direct writings, 61.6% were produced by non-affiliated agency operations, 27.8% through affiliated agency operations, and the remaining 10.5% generated directly by the title companies.

Profitability

Underwriting profitability deteriorated 49.8% over the prior year period, however, remained profitable with net operating gains totaling $167 million. The decline was attributable to a 15.7% decline in premiums earned to $5.1 billion that were mostly offset by a 15.1% reduction in operating expenses incurred to $5.0 billion. Loss and LAE incurred remained flat at $402 million. The resulting impact was a 1.2-percentage point deterioration in the loss ratio to 7.8% and a nominal 0.6-percentage point rise in the expense ratio to 96.4%. Overall, the combined ratio worsened 1.8-percentage points to 104.2%.

A net investment gain of $106 million was reported at mid-year, comprised of net investment income earned of $117 million and net realized capital losses totaling $11 million.

Capital & Surplus

Industry aggregated policyholders' surplus increased 3.5% from the prior year-end to $4.2 billion. The increase was primarily attributable to net income totaling $211 million, unrealized capital gains of $110 million, and a $39 million decrease in net deferred income taxes. Offsetting the increase was $269 million in stockholder dividends, a $23 million rise in non-admitted assets, and aggregate write-in for losses totaling $12 million.

Cash & Liquidity

Net cash provided by operating activities totaled $92 million, compared to $199 million recorded in the prior mid-year, a 53.8% decline. Cash inflows fell 16.9% to $5.6 billion largely due to declining premiums collected. Cash outflows fell 15.8% to $5.5 billion partially offsetting the decline in cash inflows. The reduced cash outflows resulted from decreased commissions and expenses, income taxes and benefit and loss related payments.

The industry's liquidity position remained favorable at 76.5%, a 1.2-percentage point improvement over the prior year period, as a 3.3% drop in adjusted liabilities outpaced a 1.7% decline in liquid assets.