NAIC National Association *of* Insurance Commissioners & *The* CENTER *for* INSURANCE POLICY *and* RESEARCH

Insurance Analysis and Information Services Department

2010 Property & Casualty and Title Industry Analysis Report

INDUSTRY AT A GLANCE

The U.S. P/C industry is amid a prolonged soft market, primarily in the commercial market, as ongoing economic issues, including higher unemployment, has resulted in lower demand for insurance despite an abundant capacity. Further aiding the soft market was the lack of a single catastrophic event in 2010 that produced material insured losses, allowing insurers to release a portion of prior years reserves, which resulted in increased capitalization and continued aggressive underwriting practices. Despite forecasts of an above-average year for tropical storm activity in the Atlantic basin, no major hurricane hit the U.S. mainland in 2010. The industry's underwriting results during the four-year soft market has been extremely volatile, primarily due to high fluctuation in net losses incurred while net premiums earned has fallen in correlation to reduced writings. Yet the industry remained profitable, as net income for the current year improved 19.4% year-over-year, attributed to a turnaround in realized gains that drove net investment income 39.7% higher relative to 2009 in light of record low interest rates that reduced investment income the two years prior. A trend of positive cash flow from operations continued, although notably lower when compared to pre-soft market conditions. Liquidity remained strong due to the release of prior years reserves and increased investments.

Insurance Analysis & Information Services Department

David Vacca, Assistant Director
816-783-8134
dvacca@naic.org

Andy Daleo, Sr. Manager
816-783-8141
adaleo@naic.org

Rodney Good, Sr. Analyst
816-783-8430
rgood@naic.org

Inside this issue: Page

(In Millions)	Chg.	2010	2009	2008	2007	2006
Operations						
Net Premiums Written	0.6%	$430,983	$428,349	$446,600	$455,624	$455,886
Net Premiums Earned	(0.8%)	$429,188	$432,662	$450,464	$453,521	$447,705
Net Losses Incurred	1.2%	$262,116	$259,117	$295,138	$254,334	$239,171
Loss Expenses Incurred	(0.3%)	$54,122	$54,268	$53,597	$54,308	$54,205
Other Underwriting Expenses	1.3%	$122,301	$120,673	$122,724	$123,064	$119,770
Net Underwriting Gain/(Loss)	(1,006.3%)	($8,584)	$947	($19,599)	$22,603	$34,528
Loss Ratio	1.3 pts	73.7%	72.4%	77.4%	68.1%	65.5%
Expense Ratio	0.6 pts	28.2%	27.6%	27.2%	26.8%	26.3%
Dividend Ratio	0.1 pts	0.6%	0.6%	0.6%	0.7%	0.9%
Combined Ratio	1.9 pts	102.5%	100.6%	105.2%	95.6%	92.7%
Net Investment Income Earned	(1.0%)	$47,225	$47,722	$52,305	$55,648	$51,552
Net Realized Gain/(Loss)	198.1%	$8,030	($8,183)	($20,660)	$9,054	$3,556
Investment Yield	(0.2) pts	3.7%	3.9%	4.2%	4.4%	4.4%
Net Income	19.4%	$36,057	$30,194	$1,750	$63,321	$64,160
Unrealized Gain/(Loss)	(32.2%)	$12,964	$19,116	($71,398)	($15,891)	$16,882
Net Cash from Operations	7.2%	$34,259	$31,943	$38,930	$72,725	$85,621
Capital & Surplus						
Policyholders' Surplus	6.6%	$579,095	$543,470	$474,054	$529,738	$479,572
Return on Surplus	(1.0) pts	8.7%	9.7%	(13.9%)	9.4%	17.9%

Premium

Soft market conditions prevailed for the fourth consecutive year, particularly in the commercial market, due to ongoing economic issues that have led to higher unemployment, decreased business activity, and lower property values. In addition to economic factors, the lack of any significant catastrophic event the past two years coupled with the release of prior year reserves, resulted in increased capitalization. Despite the abundant capacity, demand was lower; and the P/C industry appears well capitalized heading into 2011.

Figure 1 illustrates the downtrend in the commercial market. Direct premiums written in the commercial market fell 2.7% compared to 2009 (16.2% over the last five years) to $188.0 billion, just below 2002 levels. On a positive note, the trend in the personal market continued higher, increasing 2.5% relative to 2009 to $241.4 billion. A nominal 0.8% decline in the combined lines market (not shown in the chart) to $51.9 billion was also noted.

Table 1.

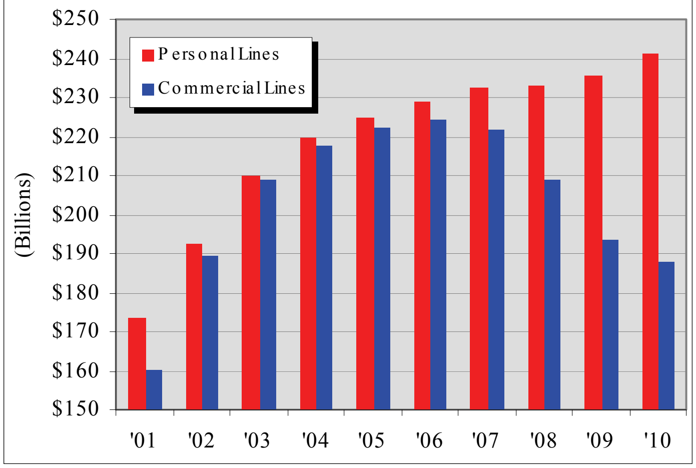
Five-Year Premium Written Trend

(Billions)	Chg.	2010	2009	2008	2007	2006
Direct	0.1%	$481.4	$481.2	$496.5	$508.7	$503.0
Assumed	(2.4%)	$346.7	$355.3	$365.4	$359.9	$358.4
Gross	(1.0%)	$828.1	$836.4	$861.9	$868.6	$861.4
Ceded	(2.7%)	$397.1	$408.1	$415.3	$413.0	$405.5
Net	0.6%	$431.0	$428.3	$446.6	$455.6	$455.9

As seen in **Table 1**, direct premiums written appears to have bottomed after back-to-back years of declining premiums in 2008 and 2009. Although nominal, direct premiums written increased 0.1% relative to 2009 to $481.4 billion, primarily due to the growth in the personal market. The increase in direct writings was offset by a 2.4% decline in assumed premiums written to $346.7 billion, resulting in a 1.0% decline in gross premiums written to $828.1 billion. Despite the decline in gross writings, net premiums written increased 0.6% year-over-year to $431.0 billion, entirely attributed to a 2.7% decline in ceded premiums written, an indicator of a global soft market. Net retention edged higher 0.8-percentage points to 52.0%. The writings leverage ratios reached unprecedented lows, mainly due to increased capitalization over the last two years. The gross writings leverage ratio fell 10.9-percentage points compared to the prior year to 143.0% while the net writings leverage ratio fell 4.4-percentage points to just 74.4%.

Figure 1.

Commercial & Personal Markets DPW Trend



On a direct basis, 29 states, including the District of Columbia, experienced a decrease in writings. This compares more favorably to 2009, when all but two states experienced a contraction in direct writings. **Table 2**, below, shows the states with the largest increases/decreases in direct writings on a dollar basis.

The premium decline in the commercial market was widespread, as all but four states, AR, MD, OK, and OR, experienced declines. The largest decline on a direct basis for the majority of states was within the workers' compensation, commercial multiple peril, other liability, and commercial auto lines. In the personal market, all states except AZ, NV, and OR experienced growth in direct writings, primarily within the homeowners' multiple peril line, as every state except NV reported increases within this line. Only two states, AR and OK, experienced premium growth in all three markets (commercial, personal and combined lines markets), whereas AZ and NV were the only states that experienced across the board declines.

Table 2

Top Five States - Change in Direct Premiums Written

Increases				Decreases			
State	% Chg	2010	2009	State	% Chg	2010	2009
TX	1.7%	$37.0	$36.4	**AZ**	(5.7%)	$7.5	$8.0
FL	1.2%	$36.2	$35.7	**CA**	(0.8%)	$54.4	$54.8
OK	4.1%	$5.8	$5.6	**IL**	(1.3%)	$20.2	$20.5
MA	1.9%	$11.0	$10.8	**NV**	(4.3%)	$3.7	$3.9
MD	1.9%	$8.8	$8.6	**NC**	(1.1%)	$11.7	$11.9

(based on $ change - Billions)

PREMIUM (CONT'D.)

Personal Lines

The personal market includes private passenger auto liability, auto physical damage, and homeowners' multiple peril lines of business. Net premiums written within the personal market increased 2.9% year-over-year from $221.0 billion to $227.4 billion. The majority of this increase was within the homeowners' line, as home buyers took advantage of the Federal Housing Tax Credit and record low interest rates. This was especially evident on a direct premium basis, as all states except NV experienced year-over-year increases within this line. A 3.0% increase in private passenger auto liability to $97.7 billion also attributed to the overall increase in the personal market.

Commercial Lines

Since 2006, when the soft market became apparent, net premiums written in the commercial market has fallen 17.5% ($31.5 billion) to $148.4 billion for the current year. Nearly half of this decline occurred within the workers' compensation line, part of which can be attributed to higher unemployment, but also due to a lower frequency of claims that led to competitive pricing before the soft market began.

The downtrend in the commercial market was not just limited to workers' compensation, the following lines also experienced double-digit percentage declines relative to 2006: financial guaranty, aircraft, products liability, commercial auto liability, other liability, medical professional liability, fidelity, ocean marine, and commercial multiple peril. The only commercial products with double-digit increases during this same period were credit, farmowners' multiple peril, and burglary and theft, which collectively comprise just 2.9% of the commercial market in 2010.

Combined Lines

Net premiums written in the combined market decreased 1.2% compared to the year prior to $55.2 billion. This decline primarily occurred within four lines: aggregate write-ins, mortgage guaranty, reinsurance (non-proportional), and allied lines.

For the most part, the combined market has trended relatively flat over the last five years, although premiums peaked in 2008 as the total reached $60.4 billion during that year. This trend is consistent with the uptrend in the personal market and downtrend in the commercial market, given that the combined market caters to both the personal and commercial markets.

Table 3.
Net Premium Written ($ in Billions)

	% Chg.	$ Chg.	2010	2009
Personal Lines	2.9%	$6.4	$227.4	$221.0
Commercial Lines	(2.1%)	($3.1)	$148.4	$151.5
Combined Lines	(1.2%)	($0.6)	$55.2	$55.8
P/C Total	**0.6%**	**$2.5**	**$431.0**	**$428.3**

Personal Lines	% Chg.	$ Chg.	2010	2009
Prvt. Psgr. Auto Liability	3.0%	$2.9	$97.7	$94.8
Auto Physical Damage	(0.7%)	($0.5)	$67.4	$67.9
Homeowners	6.9%	$4.0	$62.4	$58.3

Commercial Lines	% Chg.	$ Chg.	2010	2009
Other Liability	(0.9%)	($0.3)	$35.6	$35.9
Workers' Compensation	(3.5%)	($1.2)	$34.6	$35.7
Commercial Multiple Peril	(0.9%)	($0.3)	$28.6	$28.9
Commercial Auto Liability	(2.3%)	($0.4)	$16.2	$16.6
Medical Professional Liability	(2.2%)	($0.2)	$9.0	$9.2
Surety	0.3%	$0.0	$4.9	$4.8
Group A&H	4.1%	$0.2	$4.3	$4.1
Farmowners	5.4%	$0.1	$2.8	$2.6
Ocean Marine	(6.8%)	($0.2)	$2.7	$2.9
Products Liability	(13.9%)	($0.3)	$2.0	$2.4
Boiler & Machinery	(4.7%)	($0.1)	$1.7	$1.8
Financial Guaranty	(23.5%)	($0.4)	$1.4	$1.8
Credit	11.0%	$0.1	$1.4	$1.2
Aircraft (all perils)	(9.8%)	($0.1)	$1.1	$1.2
Fidelity	(2.6%)	($0.0)	$1.1	$1.1
Excess Workers' Compensation	(15.1%)	($0.1)	$0.8	$0.9
Burglary & Theft	9.7%	$0.0	$0.2	$0.2

Combined Lines	% Chg.	$ Chg.	2010	2009
Allied Lines	(1.9%)	($0.2)	$12.3	$12.6
Reinsurance (Nonproportional)	(2.5%)	($0.3)	$12.2	$12.6
Fire	1.2%	$0.1	$10.4	$10.3
Inland Marine	(1.7%)	($0.1)	$8.5	$8.6
Mortgage Guaranty	(7.1%)	($0.3)	$4.2	$4.6
Other A&H	21.0%	$0.5	$3.0	$2.4
Warranty	6.1%	$0.1	$1.9	$1.8
Earthquake	9.9%	$0.1	$1.4	$1.3
Aggregate Write-Ins	(30.3%)	($0.4)	$1.0	$1.4
Credit A&H	(26.4%)	($0.1)	$0.1	$0.2
International	(8.8%)	($0.0)	$0.1	$0.1

(Ordered by 2010 NPW)

Reinsurance

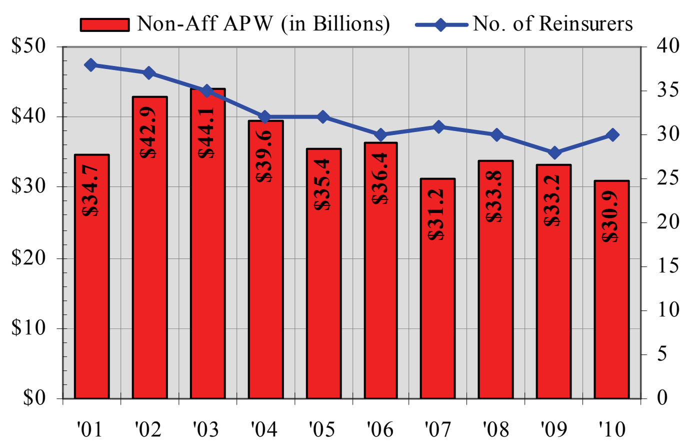
Assumed Premiums Written

Assumed premium written fell 2.4% ($8.6 billion) to $346.7 billion, of which 88.2% was comprised of affiliated business and 11.8% non-affiliated business. Of the affiliated assumptions, 72.4% were related to U.S. intercompany pooling arrangements, which were flat at $221.2 billion compared to the prior year. The main cause for the overall decline in assumed premiums written was related to a 6.3% ($5.4 billion) decrease in affiliated U.S. non-pool business. Total non-U.S. business assumed was $11.2 billion, 5.2% lower relative to 2009.

Professional Reinsurers

This section is intended to provide a financial overview of a group of insurers considered to be "professional reinsurers." The criteria used in determining a professional reinsurer is based on the top 75% collective market share of non-affiliated assumed premiums written. Over the last ten years the average number of professional reinsurers per annum was 32. **Figure 2** below shows the quantity and non-affiliated assumptions of professional reinsurers per year.

Figure 2.
Professional Reinsurers



Nearly two-thirds of the $30.9 billion in non-affiliated assumptions in 2010 consisted of nonproportional reinsurance—property (21.7%), nonproportional reinsurance—liability (20.2%), allied lines (10.0%), other liability—occurrence (6.2%), and fire (5.6%). Market share by line of business was consistent with the prior year, although material declines within the top three lines, primarily a 30.5% decline in allied lines was noted. However, for the most part premium volume was consistent with the overall soft market.

Table 4.
Professional Reinsurers Financial Summary

($ in Billions)	2010	2009	2008	2007	2006
Non-Aff APW	$30.9	$33.2	$33.8	$31.2	$36.4
Market Share	75.4%	75.8%	75.1%	75.4%	75.1%
Assm Prem. Earned	$78.2	$74.6	$87.4	$93.4	$106.1
Assm. Losses Incrd.	$46.2	$47.0	$56.9	$54.0	$59.0
Assm. Loss Ratio	59.1%	63.0%	65.1%	57.8%	55.6%
Net U/W Gain (Loss)	($1.1)	$0.3	($1.6)	$5.9	$4.8
Net Inv. Gain (Loss)	$17.1	$8.9	$10.1	$15.6	$16.0
Net Income	$14.1	$7.3	$5.0	$15.0	$17.3
Return on Revenue	21.5%	13.5%	7.1%	19.2%	21.5%
Net Loss Ratio	74.8%	70.7%	76.3%	64.5%	66.7%
Expense Ratio	27.4%	27.4%	26.7%	26.0%	25.7%
Dividend Ratio	0.1%	0.0%	0.1%	0.1%	0.1%
Combined Ratio	102.4%	98.1%	103.1%	90.6%	92.5%
Cash from Ops.	$15.5	$10.1	$9.8	$15.7	$20.0
Liquidity Ratio	99.7%	100.8%	105.4%	100.4%	96.2%

Based on the 30 professional reinsurers in 2010, non-affiliated assumed premiums written represented 75.4% of the market compared to $33.2 billion (75.8% market share) for the 28 reinsurers in 2009.

As shown in **Table 4**, profitability in the professional reinsurance market remained strong, as net income rebounded to $14.1 billion, versus $7.3 billion achieved in 2009. This was mostly due to $17.1 billion in net investment gains that offset a net underwriting loss of $1.1 billion. The poor underwriting results were reflected in a combined ratio of 102.4%, represented by a 74.8% net loss ratio, 27.4% expense ratio, and a 0.1% dividend ratio. Return on revenue was impressive at 21.5%. The liquidity ratio improved over the last two years to 99.7% from 105.4% two years prior. Part of this improvement can be ascribed to a trend of positive cash flow from operations.

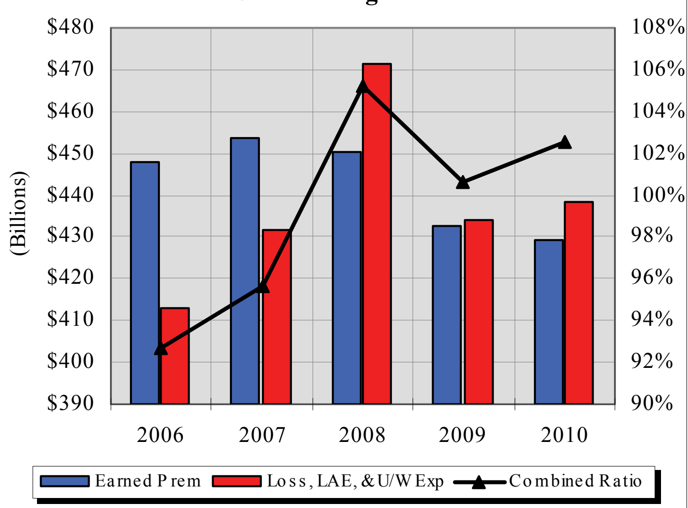
Perhaps a better measure as to how well the professional reinsurance market has performed is by looking at the assumed loss ratio of 59.1% compared to 63.0% in 2009. This improvement demonstrates the resilience of the market in the face of the global soft market and struggling economies. The market also benefited from the lack of any significant catastrophic event over the last two years, eliminating the threat of material insured losses related to any one event. However, the start of 2011 may test the underwriting of the reinsurance market, particularly after the March 11th Japan earthquake that subsequent resulted in a catastrophic tsunami and nuclear crisis.

Insurance Operations

The prolonged soft market has brought very significant and unsettling volatility in the industry's underwriting results over the last four years. For the current year, the industry recorded a net underwriting loss of $8.6 billion compared to a gain of $947 million in 2009, loss of $19.6 billion in 2008, and a gain of $22.6 billion in 2007. This volatility mostly stemmed from a high fluctuation in net losses incurred while net premiums earned has declined in correlation to the reduction in premiums written.

For the current year, net premiums earned decreased 0.8% to $429.2 billion while net losses and LAE incurred increased 0.9% to $316.2 billion, resulting in a 1.3-percentage point increase in the loss ratio to 73.7%. A greater percentage increase of 1.3% in other underwriting expenses incurred that exceeded the increase in net premiums written, resulted in a 0.6-percentage point increase in the expense ratio to 28.2%. The combined ratio deteriorated 1.9-percentage points to 102.5%.

Figure 3.
Underwriting Income



Personal Lines

The increase in premiums written in the personal market led to a 2.0% increase in net premiums earned to $224.2 billion, but also led to a 2.9% increase in net losses incurred to $143.5 billion. As a result, the pure net loss ratio (PNLR) within the personal market slightly worsened, by 0.6-percentage points, but remained relatively healthy at 64.0%.

The homeowners' multiple peril line recorded a 6.2% increase in net premiums earned and a 8.1% increase in net

Table 5.
Pure Net Loss Ratio

	Pt. Chg.	2010	2009	2008
Personal Lines	0.6 pts	64.0%	63.5%	65.6%
Commercial Lines	2.8 pts	57.7%	54.9%	60.9%
Combined Lines	1.5 pts	58.6%	57.1%	75.6%
P/C Total	**1.6 pts**	**61.1%**	**59.5%**	**65.1%**

Personal Lines	Pt. Chg.	2010	2009	2008
Prvt. Psgr. Auto Liability	(0.1) pts	66.6%	66.7%	64.4%
Auto Physical Damage	0.7 pts	58.4%	57.8%	60.4%
Homeowners	1.2 pts	66.1%	65.0%	74.0%

Commercial Lines	Pt. Chg.	2010	2009	2008
Other Liability	1.3 pts	56.9%	55.6%	48.0%
Workers' Compensation	2.7 pts	71.8%	69.1%	61.9%
Commercial Multiple Peril	3.2 pts	51.6%	48.3%	56.2%
Commercial Auto Liability	(1.0) pts	53.9%	54.9%	54.3%
Medical Professional Liability	(3.1) pts	32.2%	35.3%	32.6%
Surety	(7.7) pts	14.2%	21.9%	13.6%
Group A&H	3.0 pts	63.4%	60.4%	62.7%
Ocean Marine	0.1 pts	50.6%	50.6%	61.3%
Farmowners	(0.2) pts	68.6%	68.8%	77.7%
Financial Guaranty	104.5 pts	148.5%	43.9%	386.2%
Products Liability	26.4 pts	73.6%	47.2%	54.2%
Boiler & Machinery	(1.4) pts	32.0%	33.4%	50.2%
Credit	(20.5) pts	75.1%	95.6%	139.5%
Aircraft (all perils)	(3.7) pts	52.1%	55.8%	60.3%
Fidelity	(12.0) pts	54.2%	66.2%	39.7%
Excess Workers' Compensation	10.8 pts	21.7%	10.9%	-
Burglary & Theft	11.6 pts	30.5%	18.9%	17.1%

Combined Lines	Pt. Chg.	2010	2009	2008
Allied Lines	2.1 pts	55.0%	53.0%	78.8%
Reinsurance (Nonproportional)	7.8 pts	45.3%	37.5%	66.5%
Fire	0.6 pts	41.9%	41.4%	56.4%
Inland Marine	(1.6) pts	46.1%	47.7%	54.8%
Mortgage Guaranty	(2.4) pts	171.0%	173.4%	193.8%
Other A&H	3.1 pts	83.5%	80.4%	65.3%
Warranty	1.8 pts	69.9%	68.1%	74.8%
Earthquake	8.4 pts	14.4%	6.0%	1.3%
Aggregate Write-Ins	(7.0) pts	39.7%	46.7%	58.7%
Credit A&H	(13.5) pts	15.3%	28.8%	15.2%
International	26.2 pts	123.3%	97.0%	83.9%

(Ordered by 2010 Net Premiums Earned)

INSURANCE OPERATIONS (CONT.)

losses incurred, which led to a PNLR of 66.1%, the primary cause of the slight deterioration within the personal market in general. The auto physical damage PNLR deteriorated slightly, by 0.7-percentage points to 58.4% while the private passenger auto liability line found stable ground at 66.6% after five consecutive years of moderate increases.

Commercial Lines

Net premiums earned in the commercial market fell 4.2% to $150.1 billion while net losses incurred increased 0.6% to $86.6 billion, resulting in a 2.8-percentage point deterioration in the PNLR to 57.7%. This deterioration was mostly attributed to nearly an across-the-board reduction in premium volume that led to lower premiums earned while net losses incurred has shown little pull-back in correlation to the reduced writings. This is particularly true within the other liability, workers' compensation, and commercial multiple peril lines, the top three lines in the commercial market. However, the worst performing line was financial guaranty with a PNLR of 148.5%, as economic conditions, primarily from mortgage-backed exposures and uncertainty about guarantor's ultimate losses continue to place pressure on the segment. Other lines within the commercial market with material fluctuation in the PNLR included products liability and credit. The PNLR in the products liability line jumped 26.4-percentage points to 73.6%, mainly due to a 15.0% decline in premiums earned caused by lower demand. The PNLR for credit insurance improved 20.5-percentage points to 75.1%, due to a 21.0% decline in net losses incurred.

Combined P/C Lines

The PNLR in the combined P/C market worsened 1.5-percentage points to 58.6% due to a 2.2% decline in net premiums earned to $54.9 billion while net losses incurred were flat at $32.2 billion.

Record housing defaults, high unemployment, and a sluggish real estate market has had a significant adverse affect on the mortgage guaranty segment over the last four years. Despite an 11.0% decline in net losses incurred, the PNLR remained extremely poor at 171.0%.

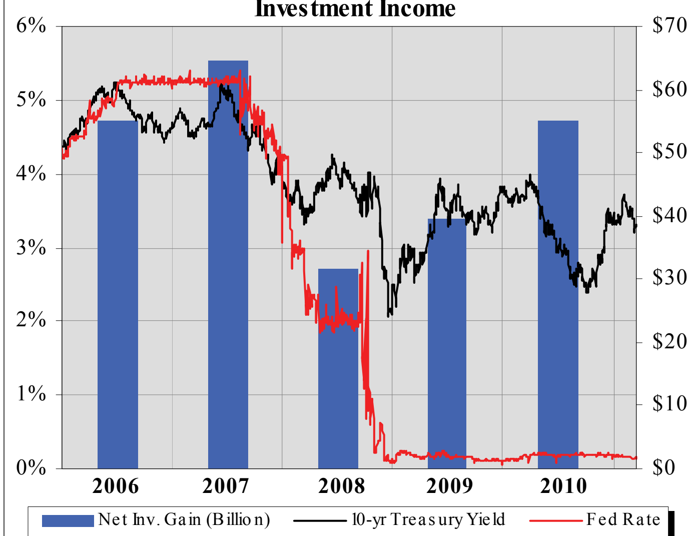
Other lines within the combined P/C market with notable deterioration in the PNLR included a 26.2-percentage point increase within the international line to 123.3%, which was primarily contained in one company that reported significant losses related to the Mexico and Chile earthquakes, along with storms in Australia. The Mexico and Chile earthquakes also led to a 8.4-percentage point increase in the PNLR within the earthquake line, although the loss ratio remained low at 14.4%.

INVESTMENT OPERATIONS

Despite record low interest rates the P/C industry experienced an exceptional 39.7% increase in net investment gains over the prior year to $55.3 billion. This improvement was entirely attributed to realized gains, whereas net investment income earned was flat at $47.2 billion. Realized gains for 2010 totaled $8.0 billion versus a dismal $8.2 billion loss in 2009. This year-over-year swing was primarily the result of higher returns in unaffiliated common stocks, non-government bonds, and other invested assets, a sign that insurers may have turned to riskier investments in order to boost income. Since 2009, insurers increased their investments in BA assets by 71.1%, common stocks by 0.6%, while total bonds only increased by 0.5%. Thus, it appears that insurers have sought higher returns on investments in order to offset the decline in premiums rates. The year-over-year increase in net investment gains, coupled with the slight decline in net premiums earned, resulted in a 3.7-percentage point improvement in the investment profit ratio to 12.9%.

Figure 4.

Investment Income



Capital and Surplus

The industry translated the significant momentum in investment income to an overall net profit of $36.1 billion, offsetting the underwriting loss. Net income improved 19.4% relative to 2009, which ultimately led to a 6.6% increase in policyholders' surplus to $579.1 billion. In addition to net income, unrealized gains of $13.0 billion also contributed to the increased capitalization of the industry. Return on policyholders' surplus was slightly lower at 8.7%, due to lower unrealized gains.

Reserves

Loss and LAE reserves were flat at $596.3 billion. Over the last two years the industry has responded to the soft market by releasing a portion of prior year's reserves. This practice has slowed in 2010, evidenced by a 0.4% decline in loss reserves in 2010 compared to a 0.8% decline in 2009. In addition, the one-year loss reserve redundancy was nearly half of what it was in 2009. Nevertheless, a trend of favorable reserve development over the last five years continued, with a one-year redundancy totaling $10.6 billion and a two-year redundancy totaling $29.5 billion. **Table 6** provides the one and two-year development by line. Reserve leverage fell 6.9-percentage points relative to 2009 to just 103.0%.

Table 6.

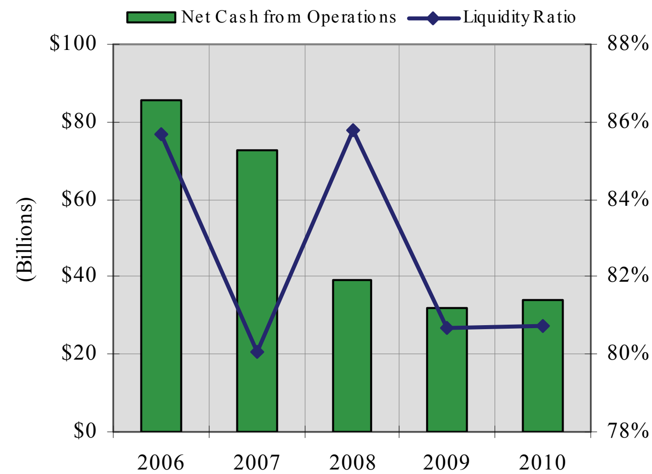
Loss Reserves Development (in Billions)

Line of Business	Reserves	1-Yr	2-Yr
Homeowners/Farmowners	$22.5	($0.3)	($1.6)
Prvt. Psgr. Auto Liability	$93.8	($2.5)	($3.4)
Comm. Auto Liability	$24.4	($0.8)	($0.9)
Workers' Compensation	$151.5	$1.4	$1.8
Commercial Multiple Peril	$36.7	($1.4)	($2.4)
Medical Professional Liability	$29.3	($2.4)	($4.2)
Special Liability	$6.7	($0.4)	($0.7)
Other Liability	$129.5	$0.4	($0.0)
Products Liability	$16.7	$0.9	$1.5
Special Property	$13.1	($1.5)	($1.3)
Auto Physical Damage	$5.0	($1.8)	($1.9)
Fidelity /Surety	$5.2	($0.4)	($0.4)
Other (including Credit, A&H)	$5.8	$0.2	$0.1
Financial/Mortgage Guaranty	$30.6	($0.4)	($13.2)
International	$0.4	($0.0)	($0.0)
Reinsurance (Nonproportional)	$44.0	($1.4)	($2.8)
Warranty	$0.3	($0.0)	($0.0)
Total	**$596.3**	**($10.6)**	**($29.5)**

Cash & Liquidity

Figure 5.

Cash & Liquidity



Net cash from operations totaled $34.3 billion compared to $31.9 billion for the prior year, a 7.2% year-over-year improvement. The improvement was primarily attributed to a 2.4% ($6.5 billion) decline in benefit and loss related payments that led to a 1.1% decline in cash outflows to $446.2 billion while cash inflows only decreased 0.5% to $480.5 billion.

Net cash used by investment activities totaled $11.2 billion compared to $38.1 billion for the prior year, a 70.6% year-over-year increase. Total investment proceeds increased 88.6% year-over-year to $1.2 trillion, led by a 380.8% increase in other invested assets to $720.6 billion. Total investments acquired jumped 79.4% to $1.2 trillion, entirely attributed to a 375.8% surge in other invested assets to $728.0 billion while all other types of investments were down.

Net cash used in financing and miscellaneous sources totaled $47.2 billion, mostly related to stockholder dividends. Overall, cash, cash equivalents, and short-term investments decreased by $24.1 billion during the year.

The industry's liquidity position remained strong at 80.7%, unchanged since the prior year-end, as a 0.5% rise in liquid assets was matched by a 0.5% increase in adjusted liabilities.

Title Industry

(In Millions)	Chg.	2010	2009	2008	2007	2006
Direct Premiums Written:	1.7%	$9,448	$9,286	$9,908	$14,057	$16,417
Direct Ops	2.3%	$1,340	$1,310	$1,669	$2,513	$2,535
Non-Aff. Agency Ops	0.4%	$5,782	$5,759	$6,042	$8,570	$10,096
Aff. Agency Ops	4.9%	$2,326	$2,217	$2,198	$2,974	$3,787
Net Operating Gain (Loss)	(53.3)%	($204)	($133)	($714)	($97)	$711
Net Income	(82.4)%	$62	$352	($407)	$313	$989
Combined Ratio	(1.8)-pt.	113.5%	115.2%	121.1%	109.1%	102.3%

The title industry has faced challenges on many fronts since the downturn in the housing market, including new federal and state foreclosure laws and the emergence of the "robo-signing" crisis. Although the industry has, for the most part, guided its way through these hurdles, a reduction in title orders over the last four years resulted in underwriting losses and ultimately lower profit margins. Despite low interest rates, home sales and loan refinances continue to fall, curtailing growth in the title industry. Nevertheless, the industry reported a 1.7% increase in direct premiums written to $9.4 billion, which in part was attributed to a short-term boost in home sales as a result of the Federal Housing Tax Credit.

Title premiums are almost entirely produced on a direct basis, either through direct operations or agency operations (affiliated or non-affiliated). As shown in **Table 7**, the majority of premiums were produced through non-affiliated agency operations, representing 61.2% of the total for the current year, followed by 24.6% affiliated agency operations, and 14.2% direct operations.

Table 7.
Five-Year Direct Premium Written Trend

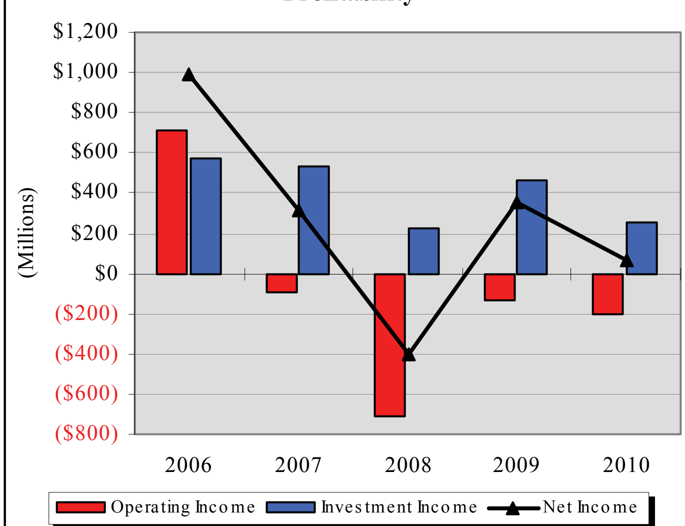
(Billions)	Chg.	2010	2009	2008	2007	2006
DPW	1.7%	$9.4	$9.3	$9.9	$14.1	$16.4
% Direct	0.1 pts	14.2%	14.1%	16.8%	17.9%	15.4%
% Non-Aff Agcy	(0.8) pts	61.2%	62.0%	61.0%	61.0%	61.5%
% Aff Agcy	0.7 pts	24.6%	23.9%	22.2%	21.2%	23.1%

Profitability

As seen in **Figure 6**, the industry has reported net operating losses for the last four years, attributed to a reduction in title orders that led to lower premiums earned while operating expenses incurred showed little pull-back. For the current year, premiums earned decreased 0.5% to $9.4 billion while operating expenses incurred decreased 1.0% to $9.6 billion. However, net loss and LAE incurred jumped 7.9% to $1.1 billion, to result in a net operating loss of $204 million for the year, a 53.3% year-over-year deterioration. The combined ratio improved 1.8-percentage points to 113.5%, due to a 2.7-percentage point improvement in the expense ratio to 101.7% while the loss ratio slightly worsened, by 0.9-percentage points.

Volatility in the equity markets led to a 34.4% decline in net investment income earned to $339 million, and a 61.4% decrease in net realized losses to $80 million, lowering net investment gains by 44.6% to $258 million. Despite this decline, the investment gain offset the operating loss and resulted in a net profit of $62 million, albeit 82.4% lower compared to a net profit of $467 million for 2009.

Figure 6.
Profitability



2010 Catastrophes

U.S. DIRECT LOSS DATA BY STATE

The overall loss data for property lines most impacted by a catastrophic event is provided in the table below. Oklahoma recorded the worst pure direct loss ratio (PDLR) for the second year in a row with an overall PDLR of 119.5%. In early May, a tornado outbreak occurred across Kansas and Oklahoma, resulting in at least 42 tornadoes, softball-sized hail and damaging winds. Later in that same month, Oklahoma was hit with another severe weather event that included golf-ball to soft-ball size hail in the greater Oklahoma City metropolitan area. This same weather event continued to the east coast producing several billion in losses.

Arizona recorded a PDLR of 107.7% due primarily to severe weather that struck in October. Tornadoes and strong thunderstorms with heavy rain and winds caused extensive damage and losses throughout Arizona. Montana reported a PDLR 100.5% relating to severe thunderstorms and hail, along with a rare tornado touchdown that killed two. In late April and early May, Tennessee was hit with rainfalls totaling nearly 20 inches, hail, tornadoes and severe flooding. The state experienced approximately $1.9 billion in direct losses incurred relating to homeowners multiple peril and auto physical damage lines of business.

Hawaii on the other hand, continued recording the lowest PDLR at 25.3%, followed by Alaska, Louisiana and Florida.

Top 5 States by Largest Property Pure Direct Loss Ratio (PDLR)

State	All Property	Fire	Allied Lines	MP Crop	Flood	Farm MP	Home MP	Comm MP (non-liab)	Ocean Marine	Inland Marine	EQ	Auto Phys Dmg
OK	119.5%	89.2%	204.7%	-74.5%	42.9%	78.9%	162.0%	210.5%	52.0%	57.9%	9.5%	80.9%
AZ	107.7%	49.2%	257.8%	49.6%	15.1%	63.4%	139.2%	183.2%	72.2%	45.3%	2.9%	73.5%
MT	100.5%	57.8%	345.7%	20.4%	-0.2%	90.9%	150.3%	135.2%	8.4%	45.1%	-0.1%	90.5%
TN	85.3%	38.6%	230.6%	59.9%	1,325.7%	73.4%	81.3%	79.6%	95.5%	130.5%	0.7%	67.2%
WY	78.5%	31.1%	107.3%	57.0%	0.4%	78.4%	91.6%	72.6%	195.0%	100.5%	1.3%	72.5%
Industry Average	53.8%	32.5%	45.6%	38.3%	22.1%	68.0%	60.4%	54.4%	55.2%	42.9%	0.6%	58.2%