

*AIS RISK CONSULTANTS, INC.*

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January 21, 2025

Mr. David Bolduc  
Public Counsel  
Office of Public Insurance Counsel  
Barbara Jordan Building  
1601 Congress Ave., Suite 3.500  
Austin, TX 78701

Re: Texas Title Insurance Industry Rate Analysis

Dear Mr. Bolduc:

In accordance with your request, we have performed an analysis of Texas Title Insurance experience for the purpose of deriving an actuarially sound rate indication.

This is an update to our report dated February 13, 2024. The update is based on reported Texas title insurance experience through 2022.

In performing our analysis, we relied on the information supplied by the Office of Public Insurance Counsel (“OPIC”) which included statistical data as well as analyses by the Texas Land Title Association (“TLTA”) and the Texas Department of Insurance (“TDI”).

We will also respond to the TLTA reports “2024 Texas Title Rate Analysis & Overview” dated October 18, 2024 and “2024 Texas Title Rate Analysis & Overview – Supplemental Submission” dated January 14, 2025.<sup>1</sup>

**Summary of Overall Results**

Based upon our analysis, we concluded that a rate decrease in the range of -8.9% to -19.0% is indicated based on the historical experience. The mid-point of this range is -14.0%, which is an actuarially sound rate decrease for Texas Title Insurance.

A summary of range indications based on various periods for historical experience is shown in the following table.

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<sup>1</sup> For any items in the TLTA reports for which we do not comment upon, it should not be assumed that we agree with the TLTA.

**TEXAS TITLE INSURANCE RATE ANALYSIS**

<u>Component</u>	Rate Indications Based on Experience Period			
	<u>5-Year</u> (2018–2022)	<u>10-Year</u> (2013–2022)	<u>15-Year</u> (2008–2022)	<u>20-Year</u> (2003–2022)
(1) Loss & loss adjustment expense ratio	1.6%	1.8%	2.2%	2.4%
(2) Expense ratio	72.7%	75.7%	78.2%	81.3%
(3) Catastrophe loss provision	1.0%	1.0%	1.0%	1.0%
(4) Total	75.3%	78.5%	81.4%	84.7%
(5) Profit provision	7.0%	7.0%	7.0%	7.0%
<b>(6) Indicated rate change</b>	-19.0%	-15.6%	-12.5%	-8.9%
<b>(7) All period average rate change -14.0%</b>				

There are five main components that determine the indicated rate change. Those are: (i) projected loss and loss adjustment expense ratio, (ii) expense ratio, (iii) catastrophe loss provision, (iv) profit provision and (v) historical experience period.

There is no disagreement between the rate proposals with respect to the first three items given a specified historical period. For example, all the rate analyses show for the 20-year period from 2003 to 2022: (i) a loss & loss adjustment expense ratio of 2.4%, (ii) an expense ratio of 81.3% and (iii) a catastrophe loss provision of 1.0%.<sup>2</sup> There is disagreement with respect to both the profit provision and the historical period to use.

These two items of disagreement are discussed in more detail in the remainder of this letter.

**1. Underwriting Profit Provision**

We used an underwriting profit provision of 7.0% compared to 11.0% by TDI and 12.0% by TLTA.<sup>3</sup>

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<sup>2</sup> TDI 2024 Title Rate Report, September 2024, page 1  
 TLTA 2024 Texas Title Rate Analysis & Overview, October 18, 2024, Texas Title Rate Study, Attachment 1

<sup>3</sup> *Ibid.*

The profit provision is dependent on a number of factors including the cost of capital, amount of investable funds and investment rate of return. In our analysis, we used a cost of capital lower than that used by TLTA and TDI.

Based on our analysis as set forth in our report dated February 13, 2024, the cost of capital should be no more than 12%, although a lower value in the range of 10% would also be reasonable and justified. By contrast, both TLTA and TDI used excessive and unreasonable cost of capital values. TLTA used a cost of capital of 15.8%.<sup>4</sup> TDI used a cost of capital of 18.0% for agents and 14.6% for underwriters & direct operations, which averages to 17.3%.<sup>5</sup>

The TLTA and TDI cost of capital values are excessive for two reasons. First, they start with an inflated base cost of capital and then add in a superfluous size premium. The base cost of capital used by TLTA and TDI, before the unneeded size premium are 11.2%<sup>6</sup> and 13.3%,<sup>7</sup> respectively.

While TLTA appears to imply that the title insurance industry in Texas would suffer from either inadequate profits or possible insolvency if a rate decrease were implemented, the reality is that both the TLTA and TDI rate proposals include extraordinarily high profit provisions.

The proposed return on investment of 15.8% (TLTA value) or an even higher value of 18.0% (TDI value) appear to be clearly unreasonable and excessive.

TLTA criticizes my analysis of the cost of capital contained in my February 13, 2024 report because I “selected the cost of capital based on property and casualty lines of business” and “fails to recognize the difference in risk between title insurance and property and casualty lines of business”.<sup>8</sup>

However, a review of the underwriting results for title insurance compared to property casualty insurance shows that title insurance is less risky than property casualty insurance. Therefore, if an adjustment were made for risk, it would result in a lower cost of capital, a lower underwriting profit provision and a lower (i.e., more negative) rate indication.

Enclosed as Exhibit AIS-1 is a comparison of the historical underwriting profit values for

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<sup>4</sup> TLTA Report, Cost Of Capital Assessment, Page 11.

<sup>5</sup> TDI Texas Title Insurance Industry, Cost Of Capital Assessment, August 27, 2024 Appendix MC, Exhibit 1, Sheet 1, Line (1).  
Average based on 78% weight for agents and 22% for underwriters & direct operations. *Ibid*, Line (3).

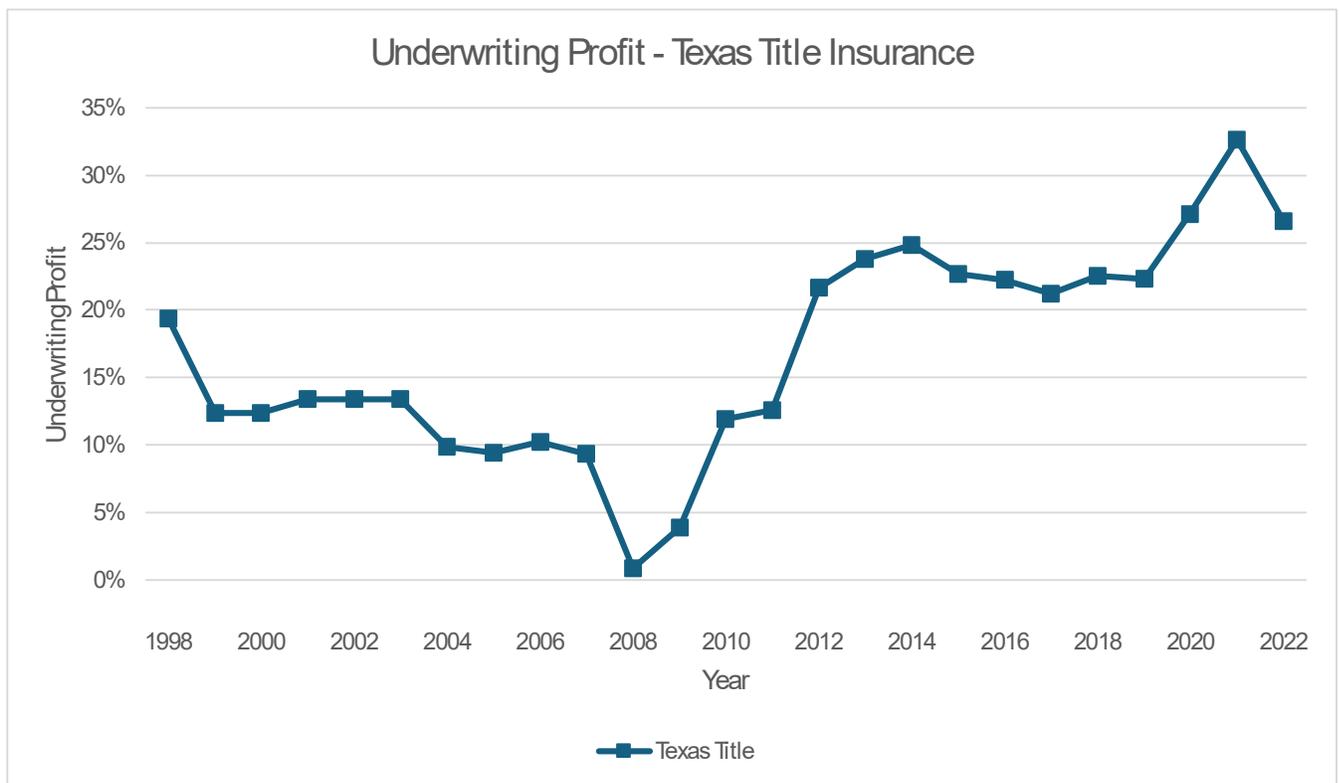
<sup>6</sup> TLTA Report, Cost Of Capital Assessment, Page 11.

<sup>7</sup> TDI Texas Title Insurance Industry, Cost Of Capital Assessment, August 27, 2024 Appendix MC, Exhibit 7, Line (5).

<sup>8</sup> TLTA 2024 Texas Title Rate Review & Analysis – Supplemental Submission  
Rudd And Wisdom’s Analysis Of AIS’S Report Commissioned By OPIC

- Texas title insurance
- Texas property casualty insurance
- Countrywide property casualty insurance
- Countrywide homeowners insurance

Texas title insurance has been significantly more profitable than property casualty insurance. In fact, Texas title insurance has had a positive underwriting profit every year from 1998 to 2022, a span of 25 years, as seen in the following graph.<sup>9</sup>



No property casualty insurance line of business has had such an impressive string of positive underwriting profit over that 25 year period.

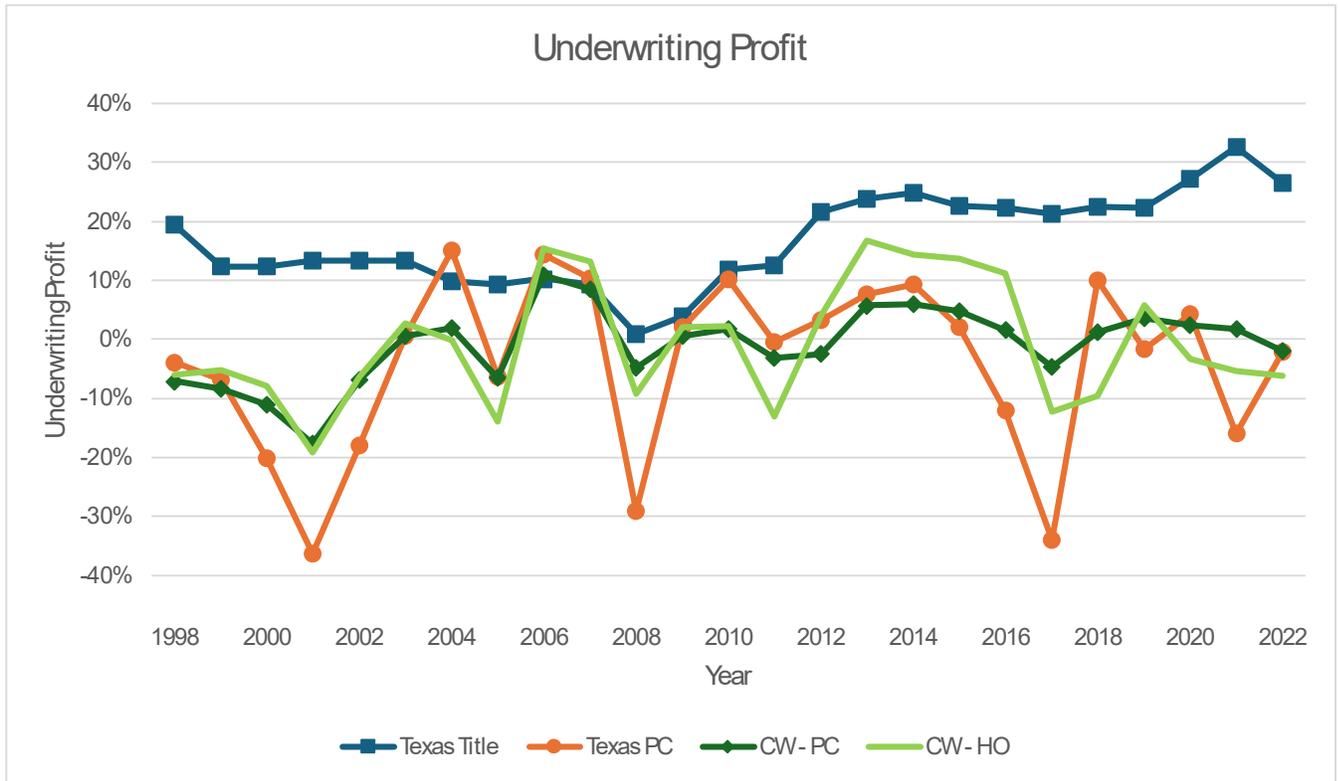
Texas title insurance has a lower variability in underwriting results, as measured by standard deviation,<sup>10</sup> than either Texas property casualty insurance or Countrywide homeowners insurance. Countrywide all lines of property casualty insurance has had a slightly lower standard deviation due to the smoothing impact of diversification from including every state and every

<sup>9</sup> Based on the NAIC document discussed later, as well as the TLTA agents survey, title insurance also had a positive net income in 2023.

<sup>10</sup> Standard deviation is commonly used as a measure of risk.

line of insurance. However, what may be considered to be a reasonable low range of Texas title insurance profit of 8.9% based on the average less one standard deviation is a higher profit than a reasonable high range of Countrywide property casualty insurance of 5.5% based on the average plus one standard deviation.

It is clear that Texas title insurance is less risky than the average line of property casualty insurance business. This can be seen clearly from the following graph of underwriting profit values, which visibly shows Texas title insurance underwriting profits have been higher and less variable than for property casualty insurance.



Taking these considerations into account, we believe that the highest reasonable cost of capital to use is 12%. However, we believe a lower cost of capital in the range of 10% would also be reasonable and justified.

The next step is to convert the cost of capital into an underwriting profit provision. Using a 12% cost of capital with the TLTA and TDI underwriting profit calculations, gives an indicated underwriting profit provisions of about 7%.

For our rate calculation, we used a 7% underwriting profit provision.

## **2. Historical Experience Period**

We used historical experience periods of 5, 10, 15 and 20 years, all ending in 2022. TDI used the same experience periods. TLTA showed the 20 year values ending in 2022. However, TLTA did not show the same 5, 10 and 15 year periods shown by TDI and me. Instead TLTA showed alternate values based on a: (i) 5 year period from 2015 to 2019 ignoring the most recent three years of data from 2020 to 2022, (ii) 3 year period from 2017 to 2019 ignoring the most recent three years of data from 2020 to 2022, (iii) linear regression and (iv) “estimated” 2023 experience.

Our conclusion is that time periods of 10 years and 15 years ending in 2022 are fair to both policyholders and the title insurance industry, give actuarially sound results and are reasonable to use.

In selecting an experience period, we considered the tradeoff between responsiveness and stability. A shorter period could be more responsive to current conditions. However, if the period is too short, it may not represent a full spectrum of conditions and could cause instability in rates. We believe the 10 year and 15 year periods strike a reasonable balance between responsiveness and stability, and represents a reasonable sample of economic conditions that could prevail during the prospective rate period, which based on past experience could last for several years.

TLTA’s “estimated 2023 experience” shows a loss ratio of 84.7% compared to an actual value of 71.9% for 2022.<sup>11</sup> The “estimated 2023 experience” is based on a self-reporting survey of Texas title insurance agents that responded to the survey. Among the problems with the survey results is that there is no way to check the accuracy of the data and the survey participants appear to have worse than average experience.

The reported expense ratio from the survey is much higher than the rating expense ratio. This confirms that these agents have much worse than average experience. Despite that, this group of agents were still profitable for Texas title insurance during 2023, showing a positive net income. Given that these agents that self-reported have worse than average experience, that would mean that the entire Texas title insurance market in 2023 was much more profitable than what was shown for these agents in 2023.

TLTA shows an increase in the expense ratio from actual 2022 of 71.9% to “estimated” 2023 in 84.7%, an increase of 12.8%. As a way of comparison, the actual change in the expense ratio from 2022 to 2023 based on countrywide data can be observed. According to data published by the National Association of Insurance Commissioners (“NAIC”) the countrywide title insurance expense ratio increased only 4.8%.<sup>12</sup> The increase in the expense ratio used by TLTA of 12.8% is more than 2½ time as large. There does not appear to be a reasonable basis

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<sup>11</sup> TLTA report, Texas Title Rate Study, Attachment 2 - Exhibit A and Attachment 4

<sup>12</sup> Exhibit AIS-2.

for this wide divergence, and TLTA has not provided an explanation. That NAIC report showed that the decrease in premium for Countrywide of -31.1% was comparable to the value in Texas of -33.0%.

For all these reasons, the TLTA's "estimated 2023 experience" is not reliable and should not be given any weight in determining the appropriate rate change.

I would note that all the other TLTA rate projections are for a decrease of about -4%. Adjusting that for the excess profit included in the TLTA analysis would result in an indicated rate decrease of about -9%. That is within the range of the rate changes that I derived, although at the low end of the range. Given this, a -9% rate decrease would seem to be the minimum reduction in Texas title insurance rates.

Another consideration in selecting an expense ratio to use for deriving rates is the technological advances that are taking place at a rapid pace. Artificial intelligence ("AI") is making work processes much more efficient. This would be especially true for an industry like title insurance which is document intensive.

That fact that AI is having a transformative impact on title insurance can be seen from the many articles and webinars devoted to this subject, including those by the American Land Title Association ("ATLA").

The ATLA has stated, "Artificial Intelligence (AI) has emerged as a transformative force in the title insurance and settlement services sector, providing a diverse array of capabilities to enhance both efficiency and productivity."<sup>13</sup>

Among the articles on the ATLA website are:

"Leveraging Language Models for Efficiency and Accuracy in Title Insurance Underwriting", which has the description "Title insurance professionals hold the crucial responsibility of ensuring the validity and accuracy of real estate title documents. Large Language Models (LLM) like ChatGPT are capable of processing large volumes of data and extracting valuable insights."

"When Will ChatGPT Open Its Own Title Agency?", Which has the description, "The next-level AI tech has people wondering what it can't do and how it will impact the title industry. Here's what it's already doing for us, what it could do and what it never will."

Other articles showing the impact of AI on title insurance are

Here is How AI Is Disrupting the Title Insurance Industry<sup>14</sup>

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<sup>13</sup> <https://www.altla.org/topics/artificial-intelligence>

AI Title Insurance Technology Permits Automated Title Insurance Operations<sup>15</sup>

Artificial Intelligence Part 2: 6 Ways Title Companies Can Harness AI<sup>16</sup>

Given the near universal agreement that AI will make the title insurance industry more efficient, it would be reasonable to apply a downward adjustment to the otherwise indicated expense ratio based on historical experience. This downward adjustment is hard to quantify at this point in time, and I have not included such an adjustment.

Not making a downward adjustment to the expense ratio to reflect the impact of AI puts a cushion for adverse experience into the indicated rates. If adverse experience does not emerge, that cushion will turn into additional profits for the tile insurance industry.

### **3. TLTA's "Agent Solvency Implication"**

TLTA's report contains a section entitled "Agent Solvency Implication". While it is not exactly clear what TLTA is recommending on this issue, it appears that the position of TLTA is that the title rates should allow all or most title insurance agents to make a profit, no matter whether those agents are operating efficiently or not.

It is my understanding that the Texas title insurance rates are set for the industry as a whole, and not for the least efficient companies. This situation seems to be analogous to the situation with regard to North Carolina for various line of insurance such as private passenger automobile insurance and homeowners insurance. In connection with that, the North Carolina Courts have stated:<sup>17</sup>

The statute contemplates that the rates shall be fixed with a view of the aggregate earnings and profits for the insurance business in the State. Each company may make as much money as it can. Some may make enormous profits, some may do a losing business, but the average profit, that is, the average profit on the aggregate business, must be reasonable.

It would seem to me that the same situation exists for the Texas title insurance business. The rate should be set based on the aggregate experience of the entire Texas title insurance industry. While that may result in some agents not making a profit, other agents will make higher profits than the average built into the rates. Basing rates on the average experience of all

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<sup>14</sup> <https://axistechnical.com/here-is-how-ai-is-disrupting-the-title-insurance-industry/>

<sup>15</sup> <https://system2thinking.org/ai-title-insurance/>

<sup>16</sup> <https://blog.softprocorp.com/artificial-intelligence-part-2-6-ways-title-companies-can-harness-ai>

<sup>17</sup> *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau*, 160 N.C. App. 416

title insurance companies, instead of on the less efficient companies as TLTA seems to recommend, will provide an incentive to increase efficiency and productivity, which will benefit both consumers and the title insurance industry.

It does not seem appropriate to make a special accommodation to the higher cost title insurance companies, which would be funded by excessive premiums charged to policyholders, as seems to be the suggestion by TLTA.

#### **4. Conclusion**

In summary, based upon our analysis, a reasonable overall rate change for Texas Title Insurance should be a decrease in the range of -8.9% to -19.0%, which has a mid-point rate decrease of -14.0%.

In my profession opinion, the rate decrease should be at least -9.0% Furthermore, Texas title insurance rates should be evaluated more frequently than has been the situation in the past. This will assist in keeping rates at a level than are neither excessive nor inadequate. The maximum time interval between Texas title insurance rate reviews should be no more than two years.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Allan I. Schwartz  
FCAS,MAAA,ARE,AIC  
APA,AU,AIAF,ARM,API,ACS,CRRA  
President

Enclosures

**Comparison of Texas Title to Property Casualty Underwriting Profit**

<u>Year</u>	<u>Underwriting Profit</u>			
	<u>Texas Title</u>	<u>Texas Property Casualty</u>	<u>Countrywide Property Casualty</u>	<u>Countrywide Homeowners</u>
1998	19.4%	-3.9%	-7.1%	-6.0%
1999	12.4%	-6.9%	-8.4%	-5.2%
2000	12.4%	-20.2%	-11.0%	-7.8%
2001	13.4%	-36.3%	-17.6%	-19.1%
2002	13.4%	-17.9%	-6.8%	-6.3%
2003	13.4%	0.5%	0.6%	2.7%
2004	9.9%	15.1%	1.9%	-4.0%
2005	9.4%	-6.3%	-6.5%	-13.9%
2006	10.2%	14.3%	10.8%	15.3%
2007	9.3%	10.3%	8.5%	13.2%
2008	0.9%	-29.1%	-4.9%	-9.3%
2009	3.9%	2.1%	0.5%	2.0%
2010	11.9%	10.1%	1.7%	2.3%
2011	12.6%	-0.4%	-3.2%	-13.1%
2012	21.7%	3.2%	-2.4%	4.1%
2013	23.8%	7.7%	5.7%	16.8%
2014	24.8%	9.3%	5.9%	14.4%
2015	22.7%	2.0%	4.7%	13.7%
2016	22.3%	-12.0%	1.6%	11.2%
2017	21.2%	-33.9%	-4.7%	-12.2%
2018	22.5%	10.0%	1.3%	-9.5%
2019	22.3%	-1.7%	3.6%	5.7%
2020	27.1%	4.2%	2.4%	-3.3%
2021	32.7%	-16.0%	1.7%	-5.4%
2022	26.6%	-2.1%	-2.0%	-6.2%
Average	16.8%	-3.9%	-0.9%	-0.8%
Standard Deviation (S)	7.9%	14.6%	6.4%	10.4%
Average + SD	24.7%	10.6%	5.5%	9.6%
Average - SD	8.9%	-18.5%	-7.4%	-11.2%

**Texas title insurance underwriting profits have been higher and less variable than for property casualty insurance**

Source:

TITA 2024 Texas Title Rate Review & Analysis, Attachment 2 - Exhibit A

Underwriting Profit = 100% - ( Loss Ratio + Expense Ratio ) Before On-Level

NAIC Report on Profitability by Line by State in 2022, 2012 & 2005

# Title Insurance Industry

## U.S. Title Insurance Industry Results

(in millions, except for percent)

For the year ended December 31,	YoY Chg	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Direct Premiums Written	(31.1%)	\$15,227	\$22,109	\$26,364	\$19,399	\$15,787	\$14,766	\$14,632	\$14,133	\$13,003	\$11,197
Direct Ops.	(33.6%)	\$1,581	\$2,379	\$2,806	\$2,047	\$1,962	\$1,865	\$1,735	\$1,517	\$1,503	\$1,263
Non-Aff. Agency Ops.	(32.9%)	\$9,779	\$14,563	\$16,977	\$12,223	\$9,752	\$9,178	\$9,187	\$8,808	\$7,919	\$6,821
Aff. Agency Ops.	(25.1%)	\$3,868	\$5,167	\$6,581	\$5,129	\$4,073	\$3,722	\$3,711	\$3,838	\$3,581	\$3,113
Net Premiums Written	(31.2%)	\$15,183	\$22,064	\$26,311	\$19,353	\$15,752	\$14,731	\$14,617	\$14,133	\$12,964	\$11,156
Title Premiums Earned	(29.5%)	\$15,388	\$21,815	\$25,602	\$19,054	\$15,599	\$14,678	\$14,461	\$13,976	\$12,787	\$11,389
Loss & LAE Incurred	5.4%	\$724	\$687	\$578	\$562	\$605	\$644	\$629	\$687	\$672	\$742
Operating Exp. Incurred	(27.7%)	\$15,090	\$20,879	\$24,366	\$18,310	\$15,090	\$14,137	\$14,089	\$13,357	\$12,163	\$10,659
Net Operating Gain/(Loss)	(60.2%)	\$715	\$1,798	\$2,677	\$1,804	\$1,224	\$1,103	\$885	\$871	\$831	\$799
Net Loss Ratio	1.6 pts	4.7%	3.1%	2.3%	2.9%	3.9%	4.4%	4.3%	4.9%	5.3%	6.5%
Expense Ratio	4.8 pts	99.4%	94.6%	92.6%	94.6%	95.6%	96.0%	96.4%	94.6%	93.9%	95.7%
Combined Ratio	6.3 pts	104.1%	97.8%	94.9%	97.6%	99.5%	100.4%	100.8%	99.5%	99.1%	102.2%
Net Invmt. Inc. Earned	9.1%	\$575	\$527	\$330	\$385	\$435	\$360	\$348	\$276	\$326	\$261
Net Realized Gains (Loss)	NM	\$11	(\$58)	\$91	(\$40)	\$75	(\$75)	\$142	\$162	\$9	\$1
Net Invmt. Gain (Loss)	24.9%	\$586	\$469	\$422	\$345	\$510	\$285	\$489	\$437	\$336	\$262
Net Income	(41.6%)	\$1,053	\$1,805	\$2,474	\$1,713	\$1,391	\$1,230	\$1,016	\$961	\$871	\$855
Net Cash From Ops	(56.4%)	\$882	\$2,024	\$3,285	\$2,145	\$1,560	\$1,441	\$1,193	\$1,081	\$1,039	\$698
Liquidity Ratio	(0.2) pts	70.4%	70.6%	65.0%	67.1%	68.9%	66.9%	67.9%	70.6%	70.4%	73.3%
December 31,	YoY Chg	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Policyholders' Surplus	(2.9%)	\$5,824	\$6,001	\$7,134	\$6,229	\$5,664	\$4,818	\$4,800	\$4,357	\$4,121	\$4,122

NM = Not Meaningful

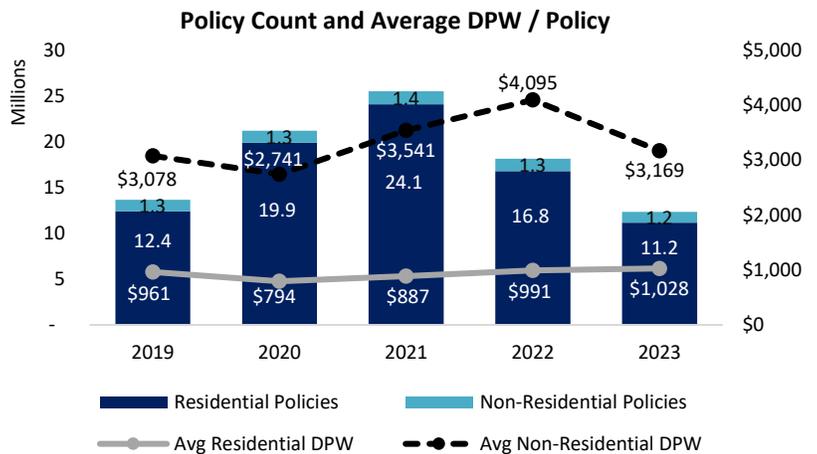
### Premium

Title industry premiums were almost entirely on a direct basis (accounting for over 99% of gross premiums) and comprised of direct and agency operations. Direct premiums written (DPW) decreased 31.1% compared to the previous year to \$15.2 billion. This followed a 16.1% decrease in the prior year to \$22.1 billion. Non-affiliated agency operations accounted for the majority of direct writings with 64.2% of total DPW. The decline in DPW was largely due to the high interest rate environment which continued to impact the number of consumers purchasing or refinancing homes in 2023. Net premiums written totaled \$15.2 billion and as the little cessions in the industry decreased, net retention fell 0.1 points to 99.5%.

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development April 2024 report indicated that there were 1.4 million new housing starts (not seasonally adjusted) during 2023, which was an 8.5% decrease compared to 2022. All reported regions (Northeast, Midwest, South, West) recorded decreases in new housing starts from 2022. Additionally, new housing permits decreased 10.1% in 2023 while completions increased 4.2% (both not seasonally adjusted). Seasonally adjusted new housing starts were only down 0.6% in April 2024 from April 2023, which indicates the downward trend in title premiums may be leveling off.

**Top 5 States by DPW**

State	% Total DPW	YoY Change
TX	15.6%	-33.0%
FL	13.0%	-28.3%
CA	8.8%	-31.1%
NY	5.9%	-34.0%
PA	4.0%	-33.9%



The five largest states by DPW (TX, FL, CA, NY, and PA) remained unchanged from the prior year and accounted for 47.3% of the total in 2023, a 0.4 point increase compared to 2022. The average YoY change in DPW by state was (26.4%) compared to (13.0%) last year. However, each of the top states reported YoY decreases greater than the average. Only the Northern Mariana Islands (0.005% of the direct market) reported YoY DPW growth.

As expected with the decline in writings, total policies issued decreased 32.0% to 12.3 million. Residential policies decreased 33.6% to 11.2 million and non-residential decreased 11.0% to 1.2 million. Residential policies continued to make up the majority of policies in 2023, accounting for 90.4% of total policies and was \$11.5 billion, or 75.3% of total DPW (an average of \$1,028 per residential policy, up 3.8% compared to last year). Non-residential policies averaged \$3,169 per policy, down 22.6% compared to last year.

*\$ amounts per policy*

	# Policies	Net Premiums Earned	Direct Losses Paid	Direct Allocated LAE Paid	Direct Losses and LAE Incurred	Direct Known Claim Reserves
<b>Direct</b>						
2023	1,006,386	\$1,627	\$55	\$49	\$100	\$125
2022	1,469,998	\$1,665	\$55	\$37	\$87	\$94
<b>Non-affiliated Agents</b>						
2023	7,196,283	\$1,370	\$33	\$20	\$53	\$53
2022	11,364,578	\$1,256	\$16	\$12	\$28	\$33
<b>Affiliated Agents</b>						
2023	4,136,701	\$940	\$25	\$15	\$39	\$32
2022	5,307,433	\$959	\$17	\$11	\$27	\$25
<b>Overall</b>						
2023	12,339,370	\$1,247	\$32	\$21	\$52	\$52
2022	18,142,009	\$1,202	\$20	\$14	\$33	\$36

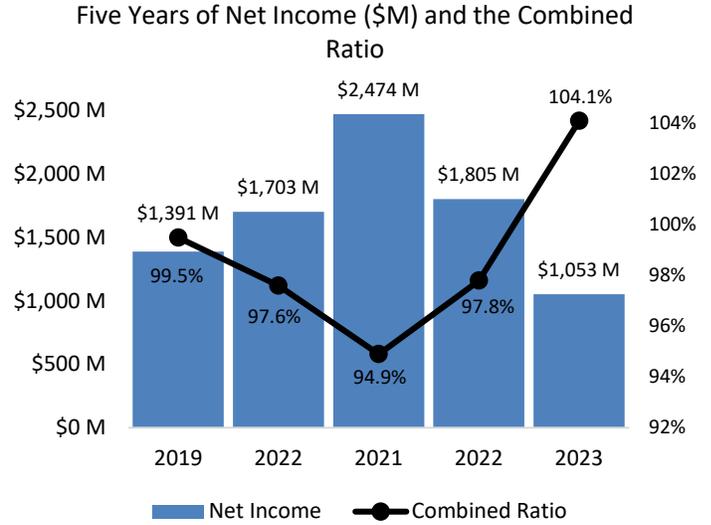
Direct, non-affiliated agents, and affiliated agents policies issued each decreased in 2023 as seen in the table above, for a total of about 5.8 million. Although the number of policies issued decreased, the average net premiums earned

per policy increased 3.7% to \$1,247. However, there was a significant increase in average losses. Direct losses and LAE incurred increased 57.6% to \$52 per policy while direct losses and LAE paid increased to a collective \$53 per policy.

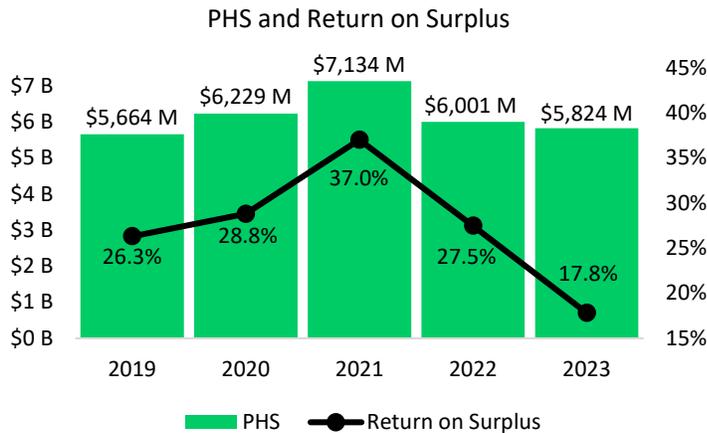
**Profitability**

Operating income dropped for the second consecutive year, down 29.3% compared to last year to \$16.5 billion. This decline was primarily due to decreased premiums written as premiums earned decreased 29.5% to \$15.4 billion. Total operating expenses decreased 26.7% to \$15.8 billion, although losses and LAE incurred did increase slightly. Net operating gains dropped a little over 60% to \$715.5 million.

Net investment gains increased nearly 25% to \$585.6 million as both net investment income earned increased 9.1% to \$574.8 million, and net realized capital gains totaled \$10.8 million compared to \$57.9 million net realized losses in the previous year. The drop in net operating gains outpaced the increase in net investment gains so net income decreased 41.7% to \$1.1 billion. This was the second consecutive YoY decrease in net income for the industry.



The combined ratio worsened 6.3 points to 104.1% and was comprised of a net loss ratio of 4.7% (worsened 1.6 points) and an expense ratio of 99.4% (worsened 4.8 points). This was the first year since 2018 that the industry combined ratio exceeded 100%, representing a 10-year high.



**Capital & Surplus**

Although less significant, policyholders’ surplus (PHS) fell again this year, 2.9% to \$5.8 billion. The main factor that drove the decrease was dividends paid to stockholders of \$1.2 billion (down 39.8%) and to a lesser extent, a \$139.2 million increase in nonadmitted assets. Return on surplus decreased nearly 10 points to 17.8%.

**Cash & Liquidity**

Following the previous year’s decrease, net cash from operations decreased 56.4% to \$882.0 million. Cash inflows fell 30.6% to \$16.9 billion as premiums collected net of reinsurance fell, which is to be expected with the decline in writings. Cash outflows also decreased 28.2% to \$16.0 billion primarily due to a 28.4% decrease in commissions, expenses paid and aggregate write-ins for deductions.

Net cash from investments fell 28.6% to \$(112.5) million. Investment proceeds decreased 42.3% to \$1.9 billion and investments purchased decreased 40.5% to \$1.4 billion, both of which were primarily related to bonds, the industry’s largest invested asset (over 60% of cash and invested assets).

Net cash from financing and miscellaneous sources increased 43.6% to \$(1.3) billion. The improvement was primarily due to a 56.0%, or \$1.1 billion, decrease in dividends to stockholders. Overall, the net change in cash, cash equivalents, and short-term investments was \$(529.3) million, to \$1.6 billion as of December 31, 2023.

The industry’s liquidity ratio improved 0.2 points to 70.4%. Liquid assets decreased 5.9% to \$9.5 billion while adjusted liabilities decreased 6.1% to \$6.5 billion.

