2019 STATE OF THE PROPERTY AND CASUALTY INSURANCE MARKET

We are honored to represent our member companies, who are such a vital piece of the Texas economy, and present this report to you in order to provide a brief overview of the current state of the Texas property and casualty industry.

Texas is the second largest insurance market in the nation and the eighth largest in the world, with $160 billion of total premiums, including $49 billion in property and casualty premiums, serving a population of over 28 million people and the second largest economy in the country.

Texas offers a robust and vibrant marketplace for property and casualty insurance insurers with hundreds of companies writing a variety of personal and commercial coverages. As of December 31, 2018, Texas has 199 domestic property and casualty companies and over 1,100 companies total writing business in the state.

Given the large number of insurers doing business here, consumers and businesses can choose from a variety of coverages and rates to suit their insurance needs. Companies are continually reviewing their products and rates to meet the needs of Texans and to remain competitive. As a result, Texas homeowners, drivers, businesses, and other property owners enjoy one of the best and most competitive insurance markets in the country and the world.

The Texas insurance industry impacts the state’s economy well beyond collecting premiums and paying losses, we provide nearly 300,000 jobs, pay taxes totaling the sixth largest revenue source for the state, invest in Texas bonds and securities, donate to charity and educational efforts, and serve Texans in their times of greatest need especially after severe weather events.

We hope you find this report useful and informative.
P&C ISSUES

ICT represents our member companies before Texas’ regulatory agencies and monitors and reports on all legislation impacting the property and casualty industry. Listed below are the significant developments affecting insurers in 2019.

REGULATORY

- TDI’s plain language initiative and efforts to simplify insurance policy forms. Commissioner Sullivan has supported efforts to make insurance and insurance products more understandable for Texas insurers.
- Consistency in rate and policy form approval to provide insurers certainty in planning for the Texas market. Texas P&C writers want to ensure consistency in TDI’s review of forms and rates. Recently, some insurers have noted changes in TDI’s interpretation of previously approved policy language and required rate information.
- Combating fraud, especially after severe weather events when Texans are most vulnerable. TDI’s Fraud Unit travels to communities after severe weather events to monitor contractor activity and educate local residents on how to avoid fraud. ICT and its members work with TDI’s Fraud Unit and fraud prosecutors to identify fraud trends and offer suggested courses of action.
- Wind insurance on the Texas coast, including TWIA’s funding and rate decisions, insurers’ financial commitment to pay losses for TWIA, and the private market’s wind writings on the coast. TDI is responsible for reviewing all TWIA rate decisions, liability limit recommendations and TWIA rules.

LEGISLATIVE

- TWIA, questions about the funding structure for the insurer of last resort on the coast and the role of the private market. During the 2019 legislative session, there were many hearings on TWIA’s funding structure and suggested changes. HB 1900 created a Legislative Funding and Funding Structure Oversight Board to review TWIA’s funding structure, among other duties, and make recommendations for legislative action on TWIA funding.
- Discussion/consideration of TWIA/FAIR Plan merger. HB 1900 includes a requirement that the Windstorm Insurance Legislative Oversight Board conduct a study evaluating the possible merger of TWIA and the FAIR Plan.
- Contractual appraisal process in property damage claims. During the 2019 legislative session, there were bills which would have curtailed the use of contractual appraisal process in contracts. We expect the 2021 session will include similar proposals.
- Auto body repair shops and consumer choice. During the last two legislative sessions there have been bills which would have limited an insurers ability to provide a list of recommended repair shops as well as mandating the use of certain parts in auto repairs.
- Consumer Protection legislation. The legislature considered various bills addressing issues such as water damage claims, regulation of re-roofers, limited releases in auto claims settlements, and others which will continue to be of interest.
- Enactment of NAIC Model Laws.

INSURANCE JOBS

The insurance industry employs nearly 300,000 Texans (direct and indirect).

291,601

TAX REVENUE

Insurance taxes produced $2.5 billion in revenue to the state of Texas in 2017.
Number of Companies Writing Policies by Line, 2018

Top five lines shown

Texas has 199 domestic property and casualty companies, most in the country.

Auto represents nearly 45% of Direct Premiums Written in 2018, but has less than half the number of companies writing (180) as compared to General Liability.

Direct Premiums Written by Line, 2018

Top five lines shown ($billions)

- Private Passenger Auto: $22.5 billion
- Homeowners Multi Peril: $9.2 billion
- Commercial Auto: $3.7 billion
- General Liability: $2.8 billion
- Commercial Multi Peril: $2.3 billion

All other property and casualty lines totalled $8.2 billion in Direct Premiums Written.

Written Premiums

Texas ranks:

1: California 2nd

Premium Taxes

Texas ranks:

1: California 2nd
DOMESTIC COMPANIES

Texas has 199 domestic property and casualty insurance companies.

1st

DOMESTIC COMPANIES

Texas ranks: 1st

LOSSES

Texas ranks: 2nd

1: California

TEN YEAR AVERAGE RETURN OF NET WORTH
ALL LINES, TEXAS AND NEARBY STATES, 2008-2017

Texas profitability is below the U.S average (6.2%) and the regional average (4.5%)

TOP FIVE LINES BY POLICIES WRITTEN, 2018

(millions)

Private Passenger Auto
Inland Marine
Homeowner’s Multi Peril
General Liability
Residential Fire and AL

All other lines: 2.5 million policies

Private Passenger Auto represents 55% of all P&C policies written in Texas
TEXAS-SIZED CLAIMS

Severe weather in Texas brings hail, wind, hurricanes, wildfire, flooding, tornadoes, and more.

Texas ranks at or near the top in hail events, number of wildfires, number of tornadoes, flood and storm surge risk and more. As a state, we trail only California in the amount of losses per year.

Texas has over a trillion dollars of coastal property at risk to hurricanes.

Texas also has more than 300,000 miles of roadways, more than any other state, a driving factor in potential auto claims.

Seven of the top ten costliest storms have occurred in the last 15 years.

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TOP 10 TEXAS LOSS EVENTS

<table>
<thead>
<tr>
<th>Storm</th>
<th>Date</th>
<th>Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hurricane Harvey</td>
<td>8/25/2017</td>
<td>$20 billion</td>
</tr>
<tr>
<td>Hurricane Ike</td>
<td>9/13/2008</td>
<td>$12 billion</td>
</tr>
<tr>
<td>TS Allison</td>
<td>6/8/2001</td>
<td>$3.5 billion</td>
</tr>
<tr>
<td>Hurricane Rita</td>
<td>9/24/2005</td>
<td>$2.8 billion</td>
</tr>
<tr>
<td>San Antonio Hailstorm</td>
<td>4/12/2016</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Garland/Rowlett Tornadoes</td>
<td>12/26/2015</td>
<td>$1.2 billion</td>
</tr>
<tr>
<td>North Texas hailstorm</td>
<td>5/5/1995</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>Dallas/Ft. Worth hailstorm</td>
<td>6/13/2012</td>
<td>$890 million</td>
</tr>
<tr>
<td>North Texas Hailstorm</td>
<td>4/5/2003</td>
<td>$885 million</td>
</tr>
<tr>
<td>Denton Hailstorm/Tornado</td>
<td>4/3/2014</td>
<td>$850 million</td>
</tr>
</tbody>
</table>

DIRECT LOSSES PAID, 2018
($billions) Top five lines shown

Private Passenger Auto represents 37% of direct losses paid across all lines.

NUMBER OF WILDFIRES
Texas ranks: 1st

MAJOR HAIL EVENTS
Texas ranks: 1st
Private Passenger Auto leads all lines, by a wide margin, in direct losses paid of $12.8 billion, direct premiums written of $22.5 billion and number of policies written, at 25 million.

TOP 10 PRIVATE PASSENGER AUTO GROUPS BY PREMIUMS WRITTEN, 2018
($billions)

- State Farm Group: $3.4 billion
- Berkshire Hathaway Group: $2.9 billion
- Allstate Insurance Group: $2.6 billion
- Progressive Group: $2.5 billion
- USAA Group: $1.9 billion
- Farmers Insurance Group: $1.7 billion
- Liberty Mutual Group: $1.1 billion
- Texas Farm Bureau Mutual Group: $739 million
- Titus Group: $578 million
- Nationwide Corp. Group: $404 million

The top 10 writers of Private Passenger Auto represent 80.3% of the market.

TEXAS COLLISION COVERAGE
Severity and Frequency of Claims Annual Change, 2015-2018

Persistent claim severity pressure remains a concern in collision and most other private passenger auto coverages.

AVERAGE AUTO INS. EXPENDITURE
New Jersey is the most expensive, Idaho is the least.

Texas ranks: 13th

% OF UNINSURED MOTORISTS
An estimated 14.1% of Texas drivers are uninsured.

Texas ranks: 16th
TOP 10 HOMEOWNERS MULTI PERIL GROUPS BY PREMIUMS WRITTEN, 2018

($billions)

- State Farm Group: $1.7 billion
- Allstate Insurance Group: $1.2 billion
- Farmers Insurance Group: $981 million
- USAA Group: $916 million
- Liberty Mutual Group: $696 million
- Travelers Group: $378 million
- Texas Farm Bureau Mutual Group: $246 million
- Progressive Group: $235 million
- Nationwide Corp. Group: $224 million
- Ace Limited Group: $190 million

The top 10 writers of Homeowners Multi Peril represent 74.13% of the market.

TOP 10 COMMERCIAL MULTI PERIL GROUPS BY PREMIUMS WRITTEN, 2018

($millions)

- Travelers Group: $235 million
- Hartford Fire and Casualty Group: $218 million
- Ace Limited Group: $141 million
- Nationwide Corp. Group: $140 million
- Farmers Insurance Group: $139 million
- Liberty Mutual Group: $137 million
- CNA Insurance Group: $114 million
- Tokio Marine Holdings Group: $111 million
- State Farm Group: $102 million
- Allstate Insurance Group: $91 million

The top 10 writers of Commercial Multi Peril represent 61% of the market.

AVG. HOMEOWNERS PREMIUM

Texas ranks: 2nd
1: Louisiana

# OF FLOOD POLICIES

Texas ranks: 2nd
1: Florida
TOP 10 GENERAL LIABILITY GROUPS BY PREMIUMS WRITTEN, 2018
($millions)

- Ace Limited Group: $280 million
- Travelers Group: $254 million
- America International Group: $243 million
- Zurich Insurance Group: $152 million
- Liberty Mutual Group: $151 million
- WR Berkley Corp. Group: $100 million
- Hartford Fire/Casualty Group: $84 million
- CNA Insurance Group: $82 million
- Nationwide Corp. Group: $73 million
- American Financial Group: $71 million

The top 10 writers of General Liability represent 52% of the market.

TOP 10 COMMERCIAL AUTO GROUPS BY PREMIUMS WRITTEN, 2018
($millions)

- Progressive Group: $654 million
- Travelers Group: $226 million
- Berkshire Hathaway Group: $193 million
- Zurich Insurance Group: $166 million
- Liberty Mutual Group: $164 million
- Old Republic Group: $150 million
- Hallmark Financial Service Group: $125 million
- Nationwide Corp. Group: $106 million
- Fairfax Financial Group: $101 million
- AmTrust GMACI Maiden Group: $100 million

The top 10 writers of Commercial Auto represent 53.5% of the market.

MILLIONS OF POLICIES, MINIMAL COMPLAINTS

- TDI tracks complaints across all property and casualty lines, and determines which complaints are justified.
- Private Passenger Auto had 1,183 complaints in 2018 on over 25 million policies written, a complaint ratio of just .0047%.
- Homeowners had 463 complaints on over 7 million policies written (.0066%).

CYBERCRIME AND IDENTITY THEFT

- Texas ranks: 2nd
- TORNADOES Texas ranks: 5th
- Texas ranks: 1: Louisiana, 2: Iowa, 3: Mississippi, 4: Illinois
The Texas Windstorm Insurance Association (TWIA) was formed by law in 1972 to provide a market for windstorm and hail insurance in the 14 "first tier" coastal counties of Texas, and a small area of Harris County. All insurance companies that write property insurance in Texas are required to be members of TWIA.

**TEXAS HURRICANE FACTS**

The 1900 Galveston hurricane remains the nation's deadliest hurricane on record, claiming over 8,000 lives.

2008's Hurricane Ike, with $12.5 billion in losses, ranks 7th.

2017's Hurricane Harvey, at $20 billion in estimated insured losses, ranks as the nation's 4th costliest storm ever.

**SUPPORTING THE TEXAS COAST**

As TWIA policies and exposure decline due to depopulation efforts and a competitive marketplace, private market exposures and policies increased.

As of 12/31/2018, the private market writes 52% of the wind and hail coverage along the coast.

The private market also writes over $500 million in auto, residential, and commercial premiums along the Texas coast.

The private market is also committed to $1 billion each year for potential TWIA losses.

**$4.2 billion**

TWIA's funding model provides up to $4.2 billion, the 1:100 year storm level, for potential losses through a combination of the CRTF, $1 billion in member assessments, $1 billion in bonds (pre and post event), and the balance in reinsurance.
Texas FAIR Plan Association was created to provide residential property insurance to persons who are unable to obtain coverage through the voluntary market.

All companies writing residential property insurance in the State of Texas are required to be members of the Association.

The Texas FAIR Plan reported losses of $85 million from Hurricane Harvey.

Due primarily to those losses, the FAIR Plan assessed member companies $64.6 million in December 2017, the first ever member company assessment for the FAIR Plan.

67% of FAIR Plan policies are in Harris County.

HURRICANE HARVEY


Hurricane Harvey generated about 765,000 claims...

...and $20 billion in estimated claim payments.

Average claim size:
- Commercial property: $238,000
- Flood: $121,000
- Automobile: $14,000
- Residential property: $13,000

80% of the claims from Hurricane Harvey are for residential property and automobile insurance, but these types of insurance only account for about 25% of the losses.

CATASTROPHES

$22 billion

In 2017, Texans received approximately $22 billion in payments from catastrophe-related claims.

COASTAL PROPERTY

$1.4 trillion

Texas ranks behind only New York and Florida in the amount of coastal property at risk to hurricanes.
The Insurance Council of Texas was created when the Texas Insurance Advisory Association and Texas Automobile Insurance Services Office merged, effective September 1, 1996. For over 80 years, these two Texas-based associations had been the principal property and automobile insurance associations for companies operating in Texas.

The merger of these two organizations created a stronger and more efficient trade association through which insurers can collectively represent their interests in the regulatory process and stay abreast of those events that affect the business of insurance in Texas.

Sources:
Annual Legislative Report on Market Conditions, Texas Department of Insurance
2019 Insurance Fact Book, Insurance Information Institute
National Association of Insurance Commissioners
Texas Windstorm Insurance Association
The Coastline at Risk, AIR Worldwide