MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor

THERESE M. GOLDSMITH
Commissioner

KAREN STAKEM HORNIG
Deputy Commissioner

MARYLAND
INSURANCE
ADMINISTRATION

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2090 Fax: 410-468-2020
Email: therese.goldsmith@maryland.gov
1-800-492-6116 TTY: 1-800-735-2258
www.mdinsurance.state.md.us

June 25, 2013

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate
State House, H-107
Annapolis, MD 21401

The Honorable Michael E. Busch
Speaker of the House
State House, H-101
Annapolis, MD 21401

The Honorable Thomas M. Middleton
Chairman
Senate Finance Committee
3 East Miller Senate Building
11 Bladen Street
Annapolis, MD 21401

The Honorable Dereck E. Davis
Chairman
House Economic Matters Committee
House Office Building, Room 231
6 Bladen Street
Annapolis, MD 21401

The Honorable John C. Astle
Vice-Chairman
Senate Finance Committee
James Senate Office Building, Room 123
11 Bladen Street
Annapolis, MD 21401

The Honorable David D. Rudolph
Vice-Chairman
House Economic Matters Committee
House Office Building, Room 231
6 Bladen Street
Annapolis, MD 21401

Gentlemen:

Pursuant to the Memorandum of Understanding dated November 14, 2008 between the Maryland Insurance Administration and the Maryland Automobile Insurance Fund, enclosed please find the Maryland Insurance Administration's 2012 Report on the Study of the Surplus of the Insured Division of the Maryland Automobile Insurance Fund.

Very truly yours,

Signature on original

Therese M. Goldsmith
Commissioner

Enclosure

cc: Victoria L. Gruber, Esq.
Kristin F. Jones, Esq.
Tami Burt
Robert Smith, Esq.

Study of the Surplus of the Insured Division of the Maryland Automobile Insurance Fund

MARYLAND
INSURANCE
ADMINISTRATION

June 25, 2013

For further information concerning this document contact:

Tinna Quigley
Director of Government Relations
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, MD 21202
410-468-2202

This document is available in alternative format upon request from a qualified individual with a disability.
TTY 1-800-735-2258

MIA's website address: www.mdinsurance.state.md.us

TABLE OF CONTENTS

I. Report Background

On November 14, 2008, the Maryland Insurance Administration (MIA) and the Maryland Automobile Insurance Fund (MAIF) entered into a Memorandum of Understanding (MOU) (**Exhibit A**), to formalize a process to review MAIF's surplus annually for a period of five years. The parties entered into the MOU as a result of the Joint Chairmen's Report of the 2008 Session, which directed them to work together to identify options on methods of determining the reasonableness of MAIF's surplus. Pursuant to the MOU, on May 23, 2013, MAIF filed with the MIA a report on the results of its analysis of surplus, and its conclusion as to whether its surplus is excessive (the 2012 Surplus Analysis Report - **Exhibit B**). The MIA is required to review MAIF's analysis and conclusion and determine whether MAIF's surplus is excessive in light of its statutory purpose, market conditions and economic climate. What follows is the result of the MIA's analysis and conclusion regarding the reasonableness of MAIF's surplus level as of December 31, 2012.

This is the fifth analysis since the execution of the MOU. The most recent analysis of MAIF's surplus was performed as of December 31, 2011. The results and conclusion of that review were communicated in a report dated January 23, 2013 to the Presiding Officers of the General Assembly and the Chairs and Vice-Chairs of the Senate Finance and House Economic Matters Committees. That report concluded that MAIF's surplus level as of December 31, 2011 was not excessive.

II. Factors Review

Part of our review of MAIF's 2012 Surplus Analysis Report involved analyzing and verifying the data it contained. Additionally, the MOU requires the MIA to evaluate MAIF's surplus based upon the reporting of the following factors:

a. the ratio of the surplus to the assessment triggers;
b. the surplus as measured by RBC;
c. the ratio of premium to surplus;
d. external economic factors, including the overall financial climate;
e. trends in the automobile insurance market nationally and in Maryland; and
f. financial projections including projected premium and surplus levels for the next twenty-four (24) months.

A. Ratio of surplus to the assessment triggers

Title 20, Subtitle 4 of the Insurance Article[1] provides an assessment mechanism under which MAIF would obtain funds from private insurers operating in Maryland's automobile insurance market in the event that MAIF's surplus were to decrease below

[1] Unless otherwise noted, all statutory references in this report are to the Insurance Article, Annotated Code of Maryland.

either one or both of two assessment triggers. The first of these triggers is the private passenger auto assessment limit, which requires an assessment when the year-end surplus is less than 25% of the average of MAIF's net direct written private passenger auto premiums for the three immediately preceding calendar years. The second trigger is the commercial auto assessment limit, which requires an assessment when the year-end "commercial auto surplus"[2] is less than 25% of the average of MAIF's net direct written commercial auto premiums for the three immediately preceding calendar years.

Presented below is the five-year historical trend in MAIF's private passenger auto assessment limit:

Private Passenger Auto	2012	2011	2010	2009	2008
Surplus	108,452,653	118,967,097	124,271,479	128,749,019	138,701,647
Direct Prem Written	69,258,654	78,509,015	102,336,300	96,650,647	103,262,192
Average Three Year Direct Prem Written	83,367,990	93,037,996	100,749,713	104,610,282	117,646,177
Assessment Trigger (Avg. prem * 25%)	20,841,997	23,259,499	25,187,428	26,152,571	29,411,544
Ratio of Surplus to Assessment Trigger	5.2	5.1	4.9	4.9	4.7

The decrease to $20,841,997 in the private passenger auto assessment limit, which resulted from a decrease in the average direct private passenger premiums written during the past three years, was the primary cause for the increase in the Ratio of Surplus to Assessment Trigger in 2012. The MIA believes that the small increase in this ratio from 2011 to 2012 is not indicative of an unreasonable, excessive level of surplus.

Presented below is the five-year historical trend in MAIF's commercial auto assessment limit:

Commercial Auto	2012	2011	2010	2009	2008
Commercial Auto Surplus	44,745,148	47,716,204	47,223,968	43,211,980	39,835,354
Direct Prem Written	8,809,801	8,795,851	9,568,199	12,517,853	13,374,157
Average Three Year Direct Prem Written	9,057,950	9,754,625	11,083,102	13,548,757	15,165,764
Assessment Trigger (Avg. prem * 25%)	2,264,488	2,438,656	2,770,776	3,387,189	3,791,441
Ratio of Surplus to Assessment Trigger	19.8	19.6	17.0	12.8	10.5

While this ratio almost doubled from 2008 to 2012, the MIA does not believe that this is indicative of an unreasonable, excessive level of surplus. In this regard, we noted that the amount by which the commercial auto surplus exceeded the commercial auto assessment limit only increased from $36,043,913 in 2008 (i.e., $39,835,354 - $3,791,441) to $42,480,660 in 2012 (i.e., $44,745,148 - $2,264,488). Furthermore, the commercial auto assessment limit only pertains to a portion of MAIF's surplus, while the private passenger auto assessment limit discussed above pertains to MAIF's entire surplus.

[2] MAIF's surplus is not segregated between its private passenger auto business and its commercial auto business. However, for purposes of determining the commercial auto assessment limit a "commercial auto surplus" is determined annually by MAIF's Board of Trustees. For the year ended December 31, 2012, the Board of Trustees determined the "commercial auto surplus" to be $44,745,148.

B. Surplus as measured by RBC

Risk Based Capital (RBC) is a method for establishing the minimum amount of capital an insurance company must have to support its business operations based upon the company's size and risk profile. RBC standards are used to determine when to take regulatory actions relating to an insurer that shows indications of a weak or deteriorating financial condition. It also provides an additional standard for minimum capital requirements that companies must meet to avoid being placed into receivership. As such, RBC is not intended to be a measure of excessive surplus. In fact, § 4-302 of the Insurance Article provides that it is the public policy of the State that, in order to safeguard the solvency of the insurance business in the State, insurers should maintain capital in excess of minimum RBC levels to secure the insurer against risks inherent in the insurance business that are not accounted for in the RBC formula. However, if MAIF's RBC ratio were an outlier when compared to other insurers, it could be indicative of either excessive or insufficient surplus.

Presented below is a listing of the top 16 writers of automobile insurance in Maryland, as measured by direct premiums written, and their RBC ratios as of December 31, 2012.[3]

Surplus as Measured by RBC

	Company Name	Direct Premiums Written ($000's)	RBC as % of Authorized Control Level
1	State Farm Mutual Auto Ins Co	678,350	902%
2	GEICO Gen Ins Co	330,544	6,184%
3	Erie Ins Exch	303,974	1,196%
4	Government Employees Ins Co	259,908	623%
5	Allstate Ins Co	198,225	642%
6	Allstate Indemnity Co	153,514	10,524%
7	GEICO Cas Co	136,409	554%
8	United Serv Automobile Assn	131,264	1,345%
9	Nationwide Mutual Ins Co	128,738	503%
10	GEICO Indemnity Co	121,658	641%
11	Nationwide Gen Ins Co	102,700	19,751%
12	USAA Casualty Ins Co.	92,617	1,638%
13	Liberty Mutual Fire Ins Co	87,013	343%
14	State Farm Fire & Casualty Co	83,936	573%
15	Allstate Prop & Casualty Ins Co	78,679	11,618%
16	**Maryland Automobile Insurance Fund**	78,068	775%

MAIF'S RBC expressed as a multiple of authorized control level RBC was 775% as of December 31, 2012. When compared to the top 16 writers of automobile insurance in Maryland, MAIF's RBC ratio ranked in the mid-point of the range (eight companies had an RBC ratio above MAIF's RBC ratio and seven companies had an RBC ratio below

[3] As reported in each insurer's Annual Statement as of December 31, 2012.

MAIF's ratio). Thus, the RBC ratio comparison does not provide any evidence that MAIF's surplus is excessive; rather, it implies that MAIF's current surplus level is reasonable, compared to other insurers writing automobile insurance in the State.

C. Ratio of premium to surplus

The ratio of premium to surplus is a calculation commonly used by the property and casualty insurance industry as a measure of financial strength or to indicate the degree to which a particular insurance company is leveraged. The ratio is designed to measure the ability of an insurer to absorb above-average losses, and is computed by dividing direct premiums written by surplus.

Presented below is the five-year historical trend in MAIF's ratio of direct premiums written to surplus:

Ratio of Premiums to Surplus	2012	2011	2010	2009	2008
Surplus	108,452,654	118,967,097	124,271,479	128,749,019	138,701,647
Direct Premiums Written	78,068,455	87,304,866	111,904,499	109,168,500	116,636,349
Ratio of Prem Written to Surplus	72%	73%	90%	85%	84%

MAIF's 2012 premium to surplus ratio decreased due to the decline in its premiums written, and came about despite a decrease in MAIF's surplus. As more fully explained below, the decrease in MAIF's premiums written could be attributable to an increasing number of Maryland motorists choosing not to purchase automobile insurance or to increased competition from private insurers. MAIF anticipates that its premiums written will increase in the future, resulting in an increase in this ratio. While a very low ratio could be indicative of excessive surplus, at this time the MIA does not believe that this ratio indicates MAIF's surplus is excessive.

D. External economic factors, including the overall financial climate

In its 2012 Surplus Analysis Report, MAIF noted that the slow economic recovery is one factor contributing to a decrease in its premium volume, and that its premium volume could significantly increase as the economy slowly improves. The report stated that MAIF's surplus has historically declined in years when its premium volume significantly increased (due to increased administrative and claims expenses). MAIF believes that it should retain surplus as a cushion against this uncertainty.

MAIF attributed much of its recent decline in premium volume to increased unemployment during the recent economic downturn. MAIF's 2012 Surplus Analysis Report stated that, "Maryland's unemployment rate has risen from an overall average of 4.4% in 2008 to 6.6% as of March 2013. The significant increase in unemployment strongly suggests vehicle owners are assuming the risk of being uninsured." MAIF referenced a 2008 report by the Insurance Research Council which linked unemployment rates to uninsured motorist rates. Specifically, according to MAIF that report states, "an increase in the unemployment rate of 1 percentage point is associated with an increase in the uninsured motorist rate of more than ¾ of a percentage point". A 2011 news release by the Insurance Research Council (**Exhibit C**) stated, "Despite laws in many states requiring drivers to maintain insurance, about one in seven motorists remain uninsured."

According to MAIF's 2012 Surplus Analysis Report, "As the economy strengthens and the unemployment rate decreases, these uninsured drivers usually return to the insurance market, but find themselves unable to obtain coverage from private carriers due to their gap in auto coverage. As such, these individuals will more than likely seek insurance from MAIF since many carriers will not insure an individual with a gap in insurance coverage. If this proves correct, MAIF's surplus will be required to withstand any dramatic increase in writings that may result."

According to the National Association of Insurance Commissioners' *2012 Property & Casualty and Title Industry Analysis Report* (**Exhibit D**), "The U.S. Property/Casualty industry continues to safely navigate through the slow economic recovery, catastrophic events, and extended period of low investment yields." Although it is impossible to predict the change in MAIF's premium volume as the economy slowly recovers, or the magnitude of MAIF's surplus decline should its premium volume increase, we believe MAIF should retain surplus to protect against this uncertainty.

E. Trends in the automobile insurance market nationally and in Maryland

In its 2011 Surplus Analysis Report, MAIF stated that private passenger auto (PPA), "...has been a bright spot of profitability for the insurance industry causing many of them [carriers nationally and in Maryland] to increase their advertising budgets, enter new markets and generally reduce their overall pricing for this product. Since last year, several carriers have entered the PPA market in Maryland, most notably Elephant and The General. Ad campaigns touting cheap pricing have made PPA a true commodity driven by price. All of this pricing and marketing activity, combined with the persistence of the current recession, places increasing downward pressure on the MAIF book of business." In its 2012 Surplus Analysis Report, MAIF stated, "The industry's current pursuit of this sector of the insurance market [PPA], coupled with the slow economic recovery, continues to result in a decline in the volume of MAIF's book of business. During 2012, MAIF's policies in force continued to decline from the year-end 2011 level of 46,721 to 40,931 by year-end 2012."

MAIF's observations are consistent with trends in the U.S. insurance market. In this regard, according to the 2012 Property & Casualty and Title Industry Analysis Report (**Exhibit D**), net premiums written in the U.S. private passenger insurance market increased 3.0% from 2011 and the pure net loss ratio[4] improved only 1.0 percentage points. The 2012 Property & Casualty and Title Industry Analysis Report indicates that while the overall property & casualty market has improved due to top line growth and

[4] "Pure net loss ratio" is the ratio of claim costs to premiums earned net of reinsurance. The ratio does not include costs other than claim costs, such as claim handling, claim adjustment and administrative expense.

lower incurred losses the effects of a lingering soft market[5] resulted in net underwriting losses for the industry.

MAIF's observations are also consistent with trends in the Maryland automobile insurance market. As noted in the MIA's 2012 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland (**Exhibit E**), "In the private passenger automobile insurance market, individuals with risk characteristics that private passenger automobile insurers are unwilling to accept are able to obtain coverage from the Maryland Automobile Insurance Fund (MAIF). Another indicator of the competitiveness of the private automobile insurance market is the market share held by MAIF. Over the six-year period from 2006 to 2011, MAIF's market share declined from approximately 3.7 percent to approximately 2.0 percent. During that same period, market share for the top insurer groups *excluding* MAIF increased from approximately 84.1 percent in 2006 to approximately 88.0 percent in 2011. These figures suggest that private passenger automobile insurers have competed for greater market share by accepting more risk."

With regard to the Maryland automobile insurance market, presented below is the five-year historical trend in the direct premiums written and pure direct loss ratio for the Maryland market *excluding* MAIF and the results for MAIF:

Maryland Automobile Insurance Market	2012	2011	2010	2009	2008
Total Maryland Direct Premiums Written	4,259,338,000	4,165,523,000	4,214,776,000	4,032,360,000	4,020,112,000
Pure Direct Loss Ratio	64%	65%	63%	65%	63%
MAIF Direct Premiums Written	78,068,455	87,304,866	111,904,499	109,168,500	116,636,349
MAIF Pure Direct Loss Ratio	54%	63%	79%	78%	72%

Direct premiums written and pure direct loss ratio[8] in the Maryland automobile insurance market remained relatively stable between 2008 and 2012. MAIF's direct premiums written declined from $117 million in 2008 to $78 million in 2012. MAIF's pure direct loss ratio increased in 2009 and 2010. MAIF's 54% pure direct loss ratio for 2012 was lower than the 64% pure direct loss ratio for the Maryland automobile insurance market. MAIF primarily attributed the improvement in this ratio in 2012 to a 13.7% rate increase effective February 2011.

It is likely that the increased competition for business among automobile insurers in the current soft market has helped contribute to the decline in MAIF's premium volume. As the market hardens, these insurers may choose to tighten underwriting standards, resulting in drivers needing to turn to MAIF for insurance. As discussed above, an increased premium volume could result in MAIF experiencing a decline in surplus (note that these additional policyholders would be in addition to the new

[5] A soft market is characterized by: intense competition for new business; insurers being willing to insure risks that are considered less desirable than usual; and the inability of insurers to increase premium rates to desired levels

[8] "Pure direct loss ratio" is the ratio of claim costs to premiums earned. The ratio does not include the impact of reinsurance or costs other than claim costs, such as claim handling, claim adjustment and administrative expense.

policyholders MAIF anticipates as the economy improves and drivers that are currently uninsured once again purchase insurance, as discussed in Section D above). We believe MAIF should retain adequate surplus to protect against these market uncertainties.

F. Financial projections including projected premium and surplus levels for the next twenty-four (24) months

MAIF's financial projections indicate a decrease in surplus from $108,452,654 as of December 31, 2012 to $98,869,654 and $ projected as of December 31, 2013 and December 31, 2014, respectively. The projected decrease in surplus is due to expected net operating losses in 2013 and 2014. MAIF projections indicate a decrease in premiums earned from $82,797,411 for calendar year 2012 to $77,940,000 in 2013, followed by a slight increase to $ in 2014. The projected pure direct loss ratio is 64% in 2013 and % in 2014, which is higher than MAIF's 55% pure direct loss ratio for 2012.

The MIA believes that MAIF's financial projections support the view that MAIF's surplus is not excessive.

III. Conclusion:

The MOU requires MAIF to submit a report on the results of its analysis of surplus, and its conclusion as to whether its surplus is excessive. The MOU requires the MIA to review the report and determine whether MAIF's surplus is excessive in light of its statutory purpose, market conditions and economic climate. In making the determination, the MIA is to evaluate MAIF's surplus based upon the reporting of the following factors:

a. the ratio of the surplus to the assessment triggers;
b. the surplus as measured by RBC;
c. the ratio of premium to surplus;
d. external economic factors, including the overall financial climate;
e. trends in the automobile insurance market nationally and in Maryland; and
f. financial projections including projected premium and surplus levels for the next twenty-four (24) months.

After considering these factors, as discussed in this report, the MIA concludes that MAIF's current surplus is not excessive.

MEMORANDUM OF UNDERSTANDING
BETWEEN THE
MARYLAND AUTOMOBILE INSURANCE FUND
AND THE
MARYLAND INSURANCE ADMINISTRATION

THIS MEMORANDUM OF UNDERSTANDING ("MOU") dated this 14th day of November, 2008 is made by and between the Maryland Automobile Insurance Fund ("MAIF") and the Maryland Insurance Administration ("MIA").

Whereas, on October 3, 2008, the MIA and MAIF jointly submitted to the Senate Budget and Taxation Committee and the House Appropriations Committee ("the Committees") a report regarding the surplus in MAIF's Insured Division; and

Whereas, MAIF and the MIA are committed to keeping the Committees informed on an annual basis regarding MAIF's surplus; and

Whereas, one of the purposes of the October joint report was to make recommendations on the options for determining whether the MAIF surplus is excessive; and

Whereas, in the report, the MIA and MAIF committed to enter into a MOU by December 15, 2008, to formalize an annual review of MAIF's surplus.

NOW, THEREFORE, MAIF and the MIA have agreed to execute and implement this MOU for the purpose of formalizing a process to review MAIF's surplus annually, and inform the Committees of the results.

A. REPORT FILING REQUIREMENTS

1. Section 20-506(b) of Maryland's Insurance Law requires MAIF's Board of Trustees to review the reasonableness and adequacy of reserves on an annual basis. Prior to May 1, 2009 and prior to May 1 of each year thereafter, MAIF agrees to file with the Insurance Commissioner ("Commissioner") a detailed report on a variety of economic and market factors including those enumerated in Section C, as well as its conclusion as to whether its surplus is excessive.

2. By June 30 of each year, the Commissioner shall review MAIF's analysis and conclusion and determine whether MAIF's surplus is excessive in light of its statutory purpose, market conditions and economic climate. Prior to the June 30 deadline, the Commissioner may request additional information from MAIF.

B. REQUIRED FACTORS FOR ANNUAL REPORT

1. The MIA will evaluate the MAIF surplus based upon the reporting on the following factors:

Exhibit A

a. the ratio of the surplus to the assessment trigger;
b. the surplus as measured by Risk Based Capital ("RBC");
c. the ratio of premium to surplus;
d. external economic factors, including the overall financial climate;
e. trends in the automobile insurance market nationally and in Maryland;
f. financial projection including projected premium and surplus levels for the next twenty-four (24) months.

2. The MIA may request any other document that it reasonably believes is necessary to the evaluation of the MAIF surplus. MAIF agrees to respond in a timely manner to the MIA's request for additional information.

3. In making its determination, the MIA must also consider factors including:

a. type of insurance provided by the insurer;
b. quality of the risk assumed by the insurer;
c. geographic scope of the insurer's market;
d. insurers' relative market share and competitive position in the marketplace;
e. overall best interest of the insurance consumer.

C. COMMISSIONER'S DETERMINATION

1. If the Commissioner determines that MAIF's surplus is excessive, the Commissioner will order MAIF to develop a plan, within a timeframe set by the Commissioner, to accomplish any necessary reduction of MAIF's surplus.

2. The plan would include the recommended method for reduction, which could include reduction of rates or rebates to current and/or former policyholders and a proposed timeline for the reduction.

3. If MAIF's recommended plan is found insufficient, the Commissioner could direct policyholder relief in the form of reduced insurance premiums or direct rebates to current and/or former insureds.

4. The Commissioner has the authority and discretion to, if necessary, hold a hearing and/or employ the services of an outside actuary as an aid to arrive at a determination.

D. DISTRIBUTION OF THE REPORT

In addition to posting the MIA report on the MIA's website, the MIA will submit its report to:

1. the presiding officers of both chambers of the General Assembly;
2. the Chair and Vice-Chair of the Senate Finance;
3. the Chair and Vice-Chair of the House Economic Matters Committees.

E. TERM OF AGREEMENT

This MOU shall begin on the date it is signed by both parties and continue for a term of five (5) years or until terminated by agreement of the parties.

F. NOTICE

Any notice given pursuant to this MOU shall be in writing and shall be considered to have been fully given when actually received by the following persons (or their successors).

M. Kent Krabbe, Executive Director
Maryland Automobile Insurance Fund
1750 Forest Drive
Annapolis, Maryland 21401-4294

Ralph S. Tyler, Insurance Commissioner
Maryland Insurance Administration
525 St. Paul Place
Baltimore, Maryland 21202-2272

Individuals and addresses for such notices may be changed by notice given as provided herein.

G. AMENDMENT

This MOU may be amended or modified only as MAIF and the MIA mutually agree in writing.

IN WITNESS WHEREOF, the parties have caused these presents to be executed, by and through their undersigned authorized representatives, as of the date first above written.

Witness:

Signature on original

Witness:

Signature on original

Maryland Insurance Administration
Ralph S. Tyler, Insurance Commissioner

Signature on original

Maryland Automobile Insurance Fund
M. Kent Krabbe, Executive Director

Signature on original

Approved for Form and Legal Sufficiency

Signature on original

Assistant Attorney General
Principal Counsel for MIA

Date: Nov. 14, 2008

M. Kent Krabbe, Executive Director

Maryland Automobile Insurance Fund

May 23, 2013

The Honorable Therese M. Goldsmith
Commissioner
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, Maryland 21202

Re: Maryland Automobile Insurance Fund's 2013 Analysis of Surplus Report

Dear Commissioner Goldsmith:

Pursuant to the November 14, 2008 Memorandum of Understanding entered into with Commissioner Tyler, herewith is the Maryland Automobile Insurance Fund's 2013 Analysis of Surplus Report.

As concluded in previous years, MAIF's surplus continues to remain reasonable and not excessive. Maintaining a healthy surplus will continue to allow MAIF to provide automobile insurance to those eligible Maryland residents without assessing the Maryland driving public.

Sincerely,

Signature on original

M. Kent Krabbe

MKK/dm
Enclosure

cc: Neil Miller, Associate Commissioner
Lynn Beckner, Chief Financial Analyst

1750 Forest Drive ✦ Annapolis, MD 21401 ✦ Phone: 410-269-8609 ✦ Fax: 410-269-4344
kkrabbe@emaif.com ✦ www.emaif.com

Exhibit B

Maryland Automobile Insurance Fund's 2013 Surplus Analysis

MIA Surplus Reporting Factors

		12/31/2012	12/31/2011
	Surplus	$108,452,653	$118,967,097
	Assessment Trigger	$23,106,485	$25,698,155
	Risk Based Capital (RBC)		
	Authorized Control Level (ACL)	$13,990,957	$13,128,864
	Premium		
	Direct Written Premium	$78,068,455	$87,304,866
	Earned Premium	$82,797,411	$99,538,051
		2012	**2011**
1)	**Ratio of Surplus to Assessment Trigger**	4.69	4.63
2)	**Ratio of Surplus to RBC Authorized Control Level**	7.75	9.06
3)	**Ratio of Premium to Surplus**		
	Direct Written Premium	0.72	0.73
	Earned Premium	0.79	0.84

4) **External Economic Factors, Including the Overall Financial Climate**

While the ratios detailed above provide an important snapshot of the MAIF surplus, a macro view of an expanding or contracting economy offers context and is the primary element of predicting MAIF's future surplus needs. Therefore, the Memorandum of Understanding requires MAIF to analyze the external economic factors, including the overall financial climate.

Some economic indicators are improving and, although sustainability is questioned, the economy seems to be slowly recovering. The Dow Jones Industrial Average has reached an all-time high of over 15,000 in May of 2013. The fourth quarter 2012 real Gross Domestic Product (GDP) increased only 0.4%, yet the preliminary estimate of annualized GNP growth was 2.5% through the first quarter of 2013. A similar pattern in annualized GDP growth was viewed in the beginning of 2012 so whether the economy will continue to improve at this rate is yet to be determined.

Overall state unemployment continues to be one of MAIF's greatest concerns. As seen previously, MAIF's policies in-force (PIF) fell as unemployment increased.. Historically, MAIF's surplus rose during periods of low unemployment and contracted during times of high unemployment. The Bureau of Labor Statistics reports Maryland unemployment remained unchanged from March 2012 to March 2013 at a level of 6.6%. Nationwide, the unemployment rate is reported to be approximately 7.6% as of March 2013, down from 8.2% a year ago.

Similar to this time last year, the economy is still sluggish and with the jobless rate remaining at 6.6%, MAIF continues to adhere to its time tested conservative approach of maintain a reasonable level of surplus. Current predictions for the unemployment rate do not show any improvement and actual numbers released in May 2013 reflect a slight increase in state unemployment rates. The pace of the recovery of the housing market and its impact on the construction industry, as well as the progress of financial crises around the world will also continue to strain the course of recovery for the US economy. As the economy slowly improves and more individuals reenter the job market looking for work, improvement in the unemployment rate is expected to lag gains made in other areas of the economy.

Finally, it is worth re-emphasizing a 2008 report by the Insurance Research Council on uninsured motorists concluding that:

> "As the economic downturn persists, consumers will seek additional ways to curb spending. Some consumers may choose to forego auto insurance, despite mandatory coverage requirements and financial responsibility laws in many states and the significant risk associated with driving uninsured. As more people lose their jobs, more tend to drive without insurance."

The report further states an increase in the unemployment rate of 1 percentage point is associated with an increase in the uninsured motorist rate of more than 3/4 of a percentage point. Maryland's unemployment rate has risen from an overall average of 4.4% in 2008 to 6.6% as of March 2013. The significant increase in unemployment strongly suggests vehicle owners are assuming the risk of being uninsured. As the economy strengthens and the unemployment rate begins to decrease, these uninsured drivers usually return to the insurance market, but find themselves unable to obtain coverage from private carriers due to their gap in auto coverage. As such, these individuals will more than likely seek insurance from MAIF since many carriers will not insure an individual with a gap in insurance coverage. If this proves correct, MAIF surplus will be required to withstand any dramatic increase in writings that may result.

This analysis indicates that MAIF needs to retain a healthy level of surplus to weather any increased demand for insurance from the Fund that may result from any economic uncertainty in the future.

5) Trends in the Automobile Insurance Market Nationally and in Maryland

The insurance industry as a whole is still struggling with the same economic impediments that have existed for the last 4.5 years. Catastrophic events such as hurricane Sandy in the northeast and tornadoes in the Midwest will impact the insurance industry's homeowners and property lines underwriting results this year. As in the past, however, the industry's desire to write private passenger automobile (PPA) insurance nationally as well as in Maryland is not expected to wane.

A recent response to declining profits realized by private passenger automobile insurers in 2011 was reported in an article appearing in the "Auto Insurance Report" dated April 22, 2013. As stated in the article,

> "Faced with declining auto profits after 2011, insurers slowed down the growth of their advertising campaigns in 2012, with ad spending for the property and casualty industry rising just 3% to a record $5.8 billion, compared with a 13% increase in 2011 to a then-record $5.6 billion, according to an exclusive report by Dowling & Partners Securities in their *IBNR Weekly* newsletter. ...The slowdown is the result of several insurers deciding their 2011 profits were inadequate and taking 2012 to get their house in order with rate increases and expense reductions."

Despite the slowed growth in consumer advertising expenditures, the insurance industry continues to aggressively pursue growth in their respective shares of the private passenger automobile insurance market through touting price and claims service differentiation. The industry's current pursuit of this sector of the insurance market, coupled with the slow economic recovery, continues to result in a decline in the volume of MAIF's book of business. During 2012, MAIF's policies in force continued to decline from the year-end 2011 level of 46,721 to 40,931 by year-end 2012.

Traditionally, a "price war" in the insurance industry almost always precedes a hardening in the market (this was exhibited in the recent change of coastal property and commercial lines of business). Increased marketing efforts resulting in slimmer profit margins add to the possibility of the "perfect storm" of sudden market constriction that MAIF has dealt with on several occasions during its existence. A sudden increase in MAIF's business volumes will result in a downward pressure on MAIF's surplus.

As stated in prior years, the insurance industry continues to face greater price pressures in 2013 than did the overall U.S. economy. The Bureau of Labor Statistics has reported that the Washington – Baltimore Consumer Price Index for medical care increased 3.9% from March 2012 to March 2013.

For the 12 month period ending December 2012, the Bureau of Labor Statistics reports that the motor vehicle parts and equipment consumer price index increased 0.9%, and the motor vehicle maintenance and repair consumer price index increased 1.3%. These are directly correlated to increased collision repair costs. These rising claims costs will further draw down the MAIF surplus. Also, new business issuance cost combined with increasing claim settlement cost could add further stress to surplus levels.

In addition, MAIF will be assuming new risks in 2013 due to recent law changes such as mopeds, motor scooters, and motorcycles. MAIF has also been permitted to offer a payment plan to its policyholders similar to that afforded to insureds in the private marketplace. Dependency on the number of new vehicle types that MAIF insures in the coming years as well as the number of policyholders that take advantage of MAIF's payment plan in the future provides a degree of uncertainty in MAIF's future surplus needs.

In conclusion, our analysis remains the same as in prior years. MAIF's claims costs will continue to rise, putting pressure on its surplus. If business volumes dramatically increase due to market hardening or economic recovery or both, that will further enhance the need for sufficient surplus. Under both scenarios, the existing surplus is not excessive.

6) Projected Financial Statements

	Actual 2012		**Projected 2013**	
Written Premium	$78,068,455		$76,300,000	
Earned Premium	$82,797,411		$77,940,000	
Losses Incurred	45,135,536	**54.5%**	49,685,000	**63.7%**
Loss Expense Incurred	31,315,763	**37.8%**	30,346,000	**38.9%**
Other U/W Deductions	26,234,363	**31.7%**	30,532,000	**39.2%**
Total U/W Deductions	102,685,662	**124.0%**	110,563,000	**141.9%**
Net U/W Gain (Loss)	**(19,888,250)**	**-24.0%**	**(32,623,000)**	**-41.9%**
Investment Income	10,269,822		13,040,000	
Net Income (Loss)	($9,582,353)		($19,583,000)	
Beginning Surplus	$118,967,097		$108,452,654	
Net Income or (Loss)	(9,582,353)		(19,583,000)	
Change in Unrealized G/(L)	9,551,048		10,000,000	
Change in Non-Admitted	(10,483,139)		0	
Ending Surplus	$108,452,654		$98,869,654	

Insurance Research Council

News Release

The Institutes
Proven Knowledge. Powerful Results.

Date: April 21, 2011

Contact: David Corum, CPCU
Phone: (484) 831-9046
E-mail: corum@TheInstitutes.org

Recession Marked by Bump in Uninsured Motorists

IRC Analysis Finds One in Seven Drivers Are Uninsured

MALVERN, Penn.—April 20, 2011— Across the United States, chances are roughly one in seven that a driver is uninsured, according to new estimates from the Insurance Research Council (IRC). The estimated percentage of uninsured motorists declined four straight years before rising to 14.3 percent in 2008 and dropping to 13.8 percent in 2009. The economic downturn is thought to be a major factor in the brief increase.

"The leveling trend in the percentage of uninsured motorists is an unfortunate consequence of the economic downturn and illustrates how virtually everyone is affected by recent economic developments," said Elizabeth A. Sprinkel, senior vice president of the IRC. "Despite laws in many states requiring drivers to maintain insurance, about one in seven motorists remain uninsured. This forces responsible drivers who carry insurance to bear the burden of paying for injuries caused by drivers who carry no insurance at all."

In a new study, *Uninsured Motorists, 2011 Edition*, IRC estimates the percentage of uninsured drivers countrywide and in individual states for 2008 and 2009. The IRC estimates are based on the ratio of uninsured motorist (UM) insurance claim frequency to bodily injury (BI) claim frequency. UM claims are made by individuals who are injured in accidents caused by uninsured drivers. BI claims are made by individuals injured in accidents caused by insured drivers. The magnitude of the uninsured motorist problem varies from state to state. In 2009, the five states with the highest uninsured driver estimates were Mississippi (28 percent), New Mexico (26 percent), Tennessee (24 percent), Oklahoma (24 percent), and Florida (24 percent). The five states with the lowest uninsured driver estimates were Massachusetts (4.5 percent), Maine (4.5 percent), New York (5 percent), Pennsylvania (7 percent), and Vermont (7 percent).

In a previous report, the IRC anticipated a trend reversal in the countrywide estimate of the percentage of uninsured motorists, citing a strong historical relationship between the national unemployment rate and the national UM to BI ratio. The strength of the historical relationship appears to have diminished slightly with the inclusion of more recent data. Several possible reasons for this are discussed in the report.

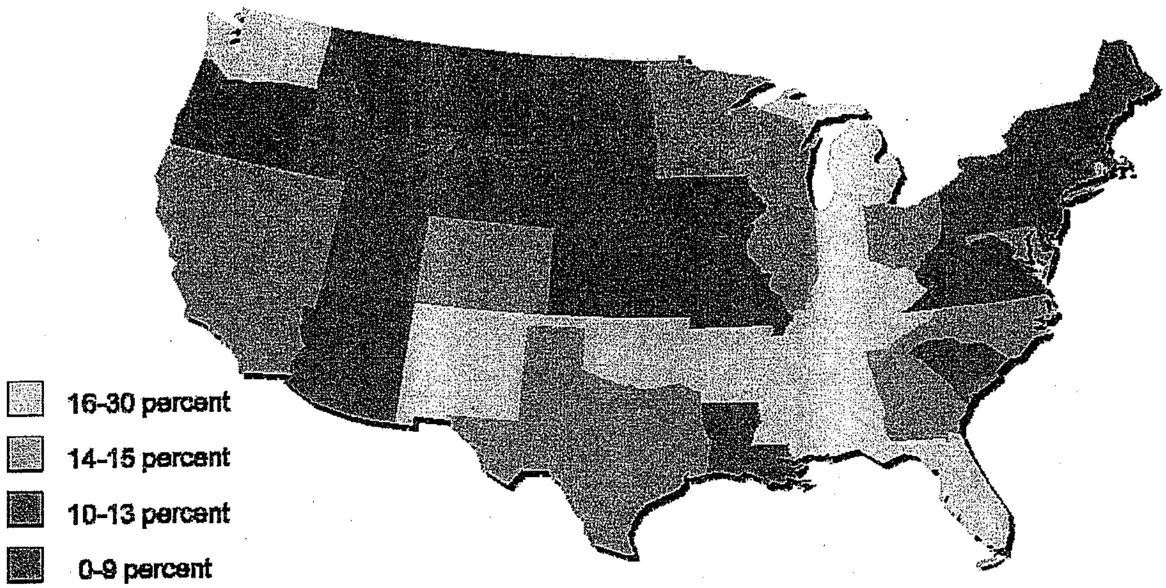
The IRC study examines data collected from nine insurers, representing approximately 50 percent of the private passenger auto insurance market in the U.S. For more information on the study's methodology and findings, contact David Corum, at (484) 831-9046, or by e-mail at irc@TheInstitutes.org. Copies of the study are available for $125 for an electronic version, or $140 for a printed copy. Visit IRC's Web site at www.ircweb.org for more information.

###

NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute For CPCU (The Institutes). The Institutes are an independent, nonprofit organization dedicated to providing educational programs, professional certification, and research for the property-casualty insurance business. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.

Exhibit C

Percent of Motorists Uninsured by State in 2009*



*Estimated using UM to BI claim frequency ratios

Estimated Percent of Uninsured Motorists by State in 2009

State	Uninsured	State	Uninsured	State	Uninsured
Mississippi	28%	Maryland	15%	Virginia	11%
New Mexico	26%	Texas	15%	Delaware	11%
Tennessee	24%	Illinois	15%	South Carolina	11%
Oklahoma	24%	Wisconsin	15%	Wyoming	10%
Florida	24%	Missouri	14%	Oregon	10%
Alabama	22%	North Carolina	14%	Kansas	10%
Michigan	19%	Nevada	13%	Connecticut	10%
Kentucky	18%	Minnesota	13%	North Dakota	9%
Rhode Island	18%	Alaska	13%	South Dakota	9%
Indiana	16%	Louisiana	13%	Utah	8%
Washington	16%	Arizona	12%	Idaho	8%
Arkansas	16%	Iowa	11%	Nebraska	8%
Ohio	16%	Montana	11%	Vermont	7%
Georgia	16%	Hawaii	11%	Pennsylvania	7%
District of Columbia	15%	New Jersey	11%	New York	5%
Colorado	15%	New Hampshire	11%	Maine	4%
California	15%	West Virginia	11%	Massachusetts	4%

NAIC
National Association of Insurance Commissioners

2012 Property/Casualty & Title Industry Report

by Financial Regulatory Services Department

Property/Casualty Industry at a Glance

Net profits in the U.S. Property/Casualty industry increased 92.7% in 2012 to $35.2 billion from $18.3 billion in 2011. The improvement was attributed to lower incurred losses, despite the impact of Hurricane Sandy ("Sandy"), but also due to moderate rate increases within certain lines, particularly commercial lines. A 4.3% decline in net losses incurred and a small increase of 1.2% in loss adjustment expenses incurred were reported in 2012. Taking this into consideration, along with top-line growth of 3.1%, the net loss ratio improved 5.0-percentage points to 74.5%. Overall, the industry's posted a net underwriting loss of $14.2 billion. Investment income continues to be hampered by a prolonged period of historically low interest rates that has caused investment yields to slide 80-basis points over the last five years to a 10-year low of 3.6%. This was partially offset by higher realized capital gains and unrealized capital gains, which ultimately, with the improved underwriting performance, led to a 5.1% increase in policyholders' surplus to a new high of $602.3 billion. The improved operations further boosted net cash provided by operating activities by 115.2% in 2012 to $38.6 billion from $18.0 billion in 2011. Liquidity remained strong at 81.5%.

Table 1.
Property & Casualty Industry Results

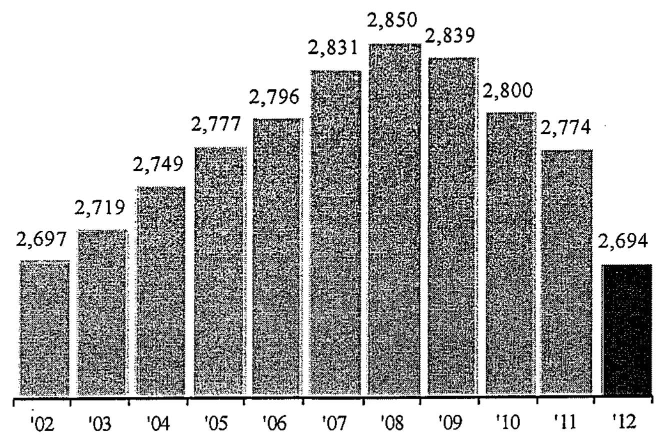
($ in Billions)	Chg.	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operations											
Net Premiums Written	3.9%	$464.2	$446.6	$432.3	$428.3	$446.6	$455.6	$455.9	$438.7	$438.6	$419.8
Net Premiums Earned	3.1%	$456.4	$442.8	$430.6	$432.7	$450.5	$453.5	$447.7	$430.7	$428.2	$401.3
Net Losses Incurred	(4.3%)	$283.5	$296.2	$263.1	$259.1	$295.1	$254.3	$239.2	$265.1	$257.9	$249.0
Loss Expenses Incurred	1.2%	$56.4	$55.7	$54.3	$54.3	$53.6	$54.3	$54.2	$56.7	$54.6	$51.8
Other Underwriting Expenses	4.4%	$130.3	$124.8	$122.7	$120.7	$122.7	$123.1	$119.8	$111.8	$109.6	$103.4
Net Underwriting Gain/(Loss)	60.0%	($14.2)	($35.5)	($8.8)	$0.9	($19.6)	$22.6	$34.5	($3.5)	$5.9	($3.3)
Loss Ratio	(5.0) pts	74.5%	79.5%	73.7%	72.4%	77.4%	68.1%	65.5%	74.7%	73.0%	75.0%
Expense Ratio	(0.1) pts	28.1%	28.3%	28.2%	27.6%	27.2%	26.8%	26.3%	25.6%	25.0%	24.7%
Dividend Ratio	0.1 pts	0.6%	0.5%	0.7%	0.6%	0.6%	0.7%	0.9%	0.5%	0.5%	0.5%
Combined Ratio	(5.1) pts	103.3%	108.3%	102.6%	100.6%	105.2%	95.6%	92.7%	100.9%	98.5%	100.2%
Net Cash from Operations	115.2%	$38.6	$18.0	$34.9	$31.9	$38.9	$72.7	$86.1	$77.9	$93.5	$77.6
Liquidity Ratio	(0.8) pts	81.5%	82.4%	80.5%	80.7%	85.8%	80.0%	85.7%	90.3%	91.0%	92.7%
Investment Income											
Net Investment Income Earned	(2.6%)	$47.7	$49.0	$47.6	$47.7	$52.3	$55.6	$51.6	$48.0	$39.5	$37.2
Investment Yield	(0.1) pts	3.6%	3.7%	3.7%	3.9%	4.2%	4.4%	4.4%	4.4%	4.0%	4.2%
Net Realized Gain/(Loss)	11.1%	$8.7	$7.8	$8.2	($8.2)	($20.7)	$9.1	$3.6	$12.2	$9.3	$6.8
Capital and Surplus											
Net Income	92.7%	$35.2	$18.3	$36.4	$30.2	$1.7	$63.3	$64.2	$44.9	$37.6	$27.7
Unrealized Gain/(Loss)	-	$11.4	($12.3)	$12.7	$19.1	($71.4)	($15.9)	$27.8	($6.4)	$10.8	$28.3
Policyholders' Surplus	5.1%	$602.3	$573.3	$579.1	$543.5	$474.1	$529.7	$479.6	$427.0	$397.6	$347.9
Return on Surplus	6.9 pts	7.9%	1.0%	8.8%	9.7%	(13.9%)	9.4%	14.2%	10.9%	10.1%	8.7%

MARKET CONDITIONS

The U.S. Property/Casualty industry continues to safely navigate through the slow economic recovery, catastrophic events, and extended period of low investment yields. Policyholders' surplus increased to a new high of $602.3 billion, mostly due to improved underwriting performance resulting from a combination of lower incurred losses and higher premium rates. Overall, capital adequacy—measured by net premiums written to policyholders' surplus (net writings leverage)—improved slightly to 77.1%, from 77.7% in 2011. The industry's net writing leverage has remained in the mid-70s since the start of the Great Recession, compared to 94.2% in 2008.

The extensive period of abundant capital has led to intense market competition and an increase in mergers and acquisitions. The number of P/C filers to the NAIC Financial Data Repository fell from a high of 2,850 in 2008 to just 2,694 in 2012, shown in **Figure 1**. This decline is partly attributed to 102 mergers and acquisitions that took place since 2008 (24 in 2012). In addition, there have been 60 rehabilitations or liquidations since 2008 (15 in 2012), as some insurers were much more adversely impacted by market conditions and events. There were 59 insurers that voluntarily went out of business during the last four years, which was offset by 144 new filers.

Figure 1.
No. of P/C Filers



Based on companies filed to the NAIC FDR

PREMIUM

Seen in **Table 2**, direct premiums written increased 4.0% to $520.8 billion in 2012 compared to $500.6 billion in 2011. Sequentially, direct writings increased for 11 consecutive quarters over prior-year-quarters, a trend that accelerated in 2012 due to slightly improved economic conditions and higher premium rates, particularly in the commercial market.

According to The Council of Insurance Agents & Brokers, commercial rates increased on average 5.0% during the fourth quarter of 2012—led by a 9.0% increase within the workers' compensation line. The data reflects that market conditions are in the process of hardening, but overall the soft market looms.

Table 2.
Five-Year Premium Written Trend

($ Billions)	Chg.	2012	2011	2010	2009	2008
Direct	4.0%	$520.8	$500.6	$483.1	$481.2	$496.5
Assumed	5.8%	$375.9	$355.4	$346.9	$355.3	$365.4
Gross	4.7%	$896.6	$856.0	$829.9	$836.4	$861.9
Ceded	5.6%	$432.4	$409.4	$397.6	$408.1	$415.3
Net	3.9%	$464.2	$446.6	$432.3	$428.3	$446.6

All three markets (Personal, Commercial, and Combined) experienced year-over-year direct premium growth, led by a 4.0% or $9.8 billion increase in the personal market to $258.9 billion, followed by a 5.3% or $9.6 billion increase in the commercial market to $191.9 billion and a 1.2% or $0.8 billion increase in the combined market to $70.0 billion. On a sequential basis, direct writings have increased for 16 consecutive quarters over prior- year-quarters in the personal market; 8 consecutive quarters in the commercial market; while the combined market experienced a contraction in direct writings in the last two quarters to prior-year -quarters.

With regard to geographic exposure, all states and the District of Columbia, except for Delaware, experienced year-over-year direct premium growth. Vermont topped all states with a 17.4% growth rate that was mostly associated with a significant increase in "strike coverage" within a domestic captive. The decline in Delaware was primarily attributed to a reduction in group accident and health coverage within one insurer. Direct premiums written outside the U.S. and U.S. territories decreased by 5.1% in 2012 to $12.0 billion (2.3% of total direct business), compared to $12.7 billion in 2011.

Assumed premium written increased 5.8% to $375.9 billion, of which 87.2% was comprised of affiliated business and 12.8% non-affiliated business. The increase in assumptions primarily stemmed from an 18.8% increase in U.S. intercompany pooling arrangements to $273.2 billion, which accounted for 72.7% of total assumptions. Non -U.S. assumptions totaled $15.7 billion or 4.2% of total assumptions.

PREMIUM (CONT'D.)

Ceded premiums written increased 5.7% to $432.4 billion in 2012 compared to $409.0 billion in 2011 to arrive at net premiums written of $464.2 billion (51.8% net retention). In **Table 3** shows net premiums written by line of business and by market for the last two years.

Personal Lines

Personal lines net premiums written increased 3.5% to $241.0 billion in 2012 compared to $232.8 billion in 2011. All three personal lines experienced year-over-year comparable growth, lead by a 4.9% or $3.2 billion increase in homeowners multiple peril line to $68.0 billion; a 3.0% or $3.0 billion increase in private passenger auto liability line to $103.4 billion; and a 2.9% or $1.9 billion increase in auto physical damage line to $69.6 billion.

Commercial Lines

Net premium growth within the commercial market continued for the third consecutive year with a 4.5% growth rate in 2012 to $161.5 billion. However, despite the upward trend and accelerated growth in 2012, net premiums remain 10.2% off the 10-year high in 2006, just before the soft market took hold.

Premium volume was higher year-over-year for the top four commercial lines, led by a 9.2% increase in the workers' compensation line to $41.1 billion. Other liability premiums gained 5.3% to $38.3 billion, while commercial multiple peril increased 4.2% to $31.2 billion and commercial auto liability increased 2.6% to $17.0 billion.

Commercial lines with decreases included the medical professional liability line, which decreased for the sixth consecutive year to $8.7 billion. The trend in the financial guaranty line was similar, but to a much greater extent as net premiums fell 28.5% to $7.0 million in 2012, which represents a 78.2% decrease since 2008 when the financial crisis began.

Combined Lines

The combined lines net premiums written increased 4.3% to $61.8 billion. The increase mostly attributed to a 12.5% increase in the reinsurance lines to $15.8 billion. In addition, moderate increases of 4.5% and 4.8% in fire and inland marine lines, respectively, rounded out the majority of the overall rise in the market. Although economic indicators suggests that the housing market is beginning to rebound, the mortgage guaranty line continued to decline, with a 6.6% decrease in 2012 to $4.0 billion.

Table 3.
Net Premium Written ($ Billions)

	% Chg	$ Chg	2012	2011
Personal Lines	3.5%	$8.2	$241.0	$232.8
Commercial Lines	4.5%	$6.9	$161.5	$154.6
Combined Lines	4.3%	$2.6	$61.8	$59.2
P/C Total	3.9%	$17.6	$464.2	$446.6
Personal Lines				
Prvt. Psgr. Auto Liability	3.0%	$3.0	$103.4	$100.4
Auto Physical Damage	2.9%	$1.9	$69.6	$67.6
Homeowners	4.9%	$3.2	$68.0	$64.8
Commercial Lines				
Workers' Compensation	9.2%	$3.4	$41.1	$37.7
Other Liability	5.3%	$1.9	$38.3	$36.3
Commercial Multiple Peril	4.2%	$1.3	$31.2	$29.9
Commercial Auto Liability	2.6%	$0.4	$17.0	$16.5
Medical Professional Liability	(2.0%)	($0.2)	$8.7	$8.8
Group A&H	(4.3%)	($0.2)	$4.7	$4.9
Surety	(3.5%)	($0.2)	$4.7	$4.9
Farmowners	11.6%	$0.3	$3.3	$2.9
Ocean Marine	(2.2%)	($0.1)	$2.7	$2.8
Products Liability	10.9%	$0.3	$2.6	$2.3
Boiler & Machinery	4.2%	$0.1	$1.9	$1.8
Credit	(2.2%)	($0.0)	$1.5	$1.5
Aircraft (all perils)	3.4%	$0.0	$1.2	$1.1
Fidelity	(0.4%)	($0.0)	$1.1	$1.1
Excess Workers' Compensation	(0.1%)	($0.0)	$0.8	$0.8
Financial Guaranty	(28.5%)	($0.3)	$0.7	$1.0
Burglary & Theft	13.2%	$0.0	$0.2	$0.2
Combined Lines				
Reinsurance (Nonproportional)	12.5%	$1.7	$15.8	$14.0
Allied Lines	0.7%	$0.1	$14.7	$14.6
Fire	4.5%	$0.5	$10.9	$10.5
Inland Marine	4.8%	$0.4	$9.4	$8.9
Mortgage Guaranty	(6.6%)	($0.3)	$4.0	$4.2
Other A&H	11.0%	$0.3	$3.0	$2.7
Earthquake	7.5%	$0.1	$1.6	$1.5
Warranty	(18.2%)	($0.3)	$1.4	$1.7
Aggregate Write-Ins	(4.4%)	($0.0)	$0.9	$1.0
International	14.0%	$0.0	$0.1	$0.1
Credit A&H	51.5%	$0.0	$0.1	$0.0

(Ordered by 2012 NPW)

INSURANCE OPERATIONS

As seen in **Figure 2** below, underwriting results significantly improved compared to the prior year due to top line growth and lower incurred losses. However, the effects of a lingering soft market and losses stemming from Sandy, although lower than estimated, resulted in a net underwriting loss of $14.2 billion for the year versus a loss of $35.5 billion for 2011. Net premiums earned increased 3.1% to $456.4 billion, while net losses incurred decreased 4.3% to $283.5 billion and loss adjustment expenses incurred increased 1.2% to $56.4 billion. As a result, the net loss ratio improved 5.0-percentage points to 74.5%, but still marginally higher compared to the ten year average of 73.4%. The expense ratio was slightly improved at 28.1% compared to 28.3% for 2011, as a 4.4% or $5.5 billion increase in other underwriting expenses incurred to $130.3 billion was less than the 3.9% or $17.6 billion increase in net premiums written. Overall, the combined ratio improved 5.1-percentage points to 103.3%.

Figure 2.
Net Underwriting Gain (Loss)

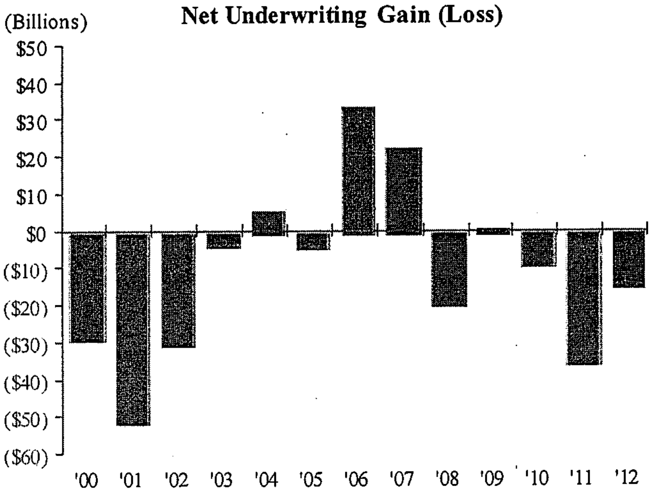


Table 4 shows the underwriting performance for each state on a direct basis. The bullet points below provide additional explanation in states with high pure direct loss ratios (PDLR) in 2012:

- **NJ & NY**—Sandy impacted federal flood, allied lines, ocean marine and inland marine coverage.
- **MI**—sharp rise in passenger auto no-fault (PIP) claims.
- **IN, IA, KS, KY, MO, NE, OK, & SD**—severe drought conditions impacted multiple peril crop insurance.
- **CO**—wildfires led to increase in homeowners losses.

Table 4.
Pure Direct Loss Ratio

State	2012	2011	2010	2009	2008
Alabama	57.8%	109.3%	60.3%	68.0%	63.7%
Alaska	43.0%	44.3%	42.4%	47.4%	38.3%
Arizona	59.1%	76.8%	85.4%	61.8%	61.3%
Arkansas	53.2%	73.6%	61.6%	71.5%	83.2%
California	57.4%	55.0%	53.9%	51.7%	57.7%
Colorado	72.0%	61.9%	63.7%	73.0%	57.8%
Connecticut	60.1%	73.4%	56.7%	55.2%	51.0%
Delaware	64.2%	50.9%	51.1%	68.8%	133.3%
District of Columbia	44.9%	63.5%	64.0%	110.4%	64.5%
Florida	46.3%	48.3%	50.5%	50.9%	50.6%
Georgia	57.2%	65.6%	60.4%	77.6%	69.9%
Hawaii	37.1%	36.0%	37.0%	36.3%	34.3%
Idaho	55.4%	52.3%	52.0%	60.0%	59.4%
Illinois	68.8%	65.3%	64.2%	65.4%	65.7%
Indiana	76.4%	62.5%	52.6%	60.8%	73.4%
Iowa	75.9%	65.8%	61.4%	61.9%	81.3%
Kansas	75.8%	85.7%	51.5%	61.9%	68.0%
Kentucky	83.9%	63.5%	60.9%	72.3%	68.4%
Louisiana	58.6%	51.7%	48.1%	46.2%	78.3%
Maine	44.5%	47.6%	48.0%	50.5%	54.4%
Maryland	62.9%	66.7%	72.4%	62.1%	59.4%
Massachusetts	51.8%	61.8%	52.3%	49.2%	54.3%
Michigan	86.4%	93.4%	80.4%	79.5%	73.1%
Minnesota	53.0%	63.5%	63.9%	59.8%	80.4%
Mississippi	50.6%	63.3%	54.1%	50.4%	63.4%
Missouri	77.7%	93.9%	57.2%	58.2%	64.8%
Montana	51.4%	56.9%	74.5%	66.9%	61.1%
Nebraska	84.1%	67.1%	60.7%	58.4%	73.1%
Nevada	60.7%	61.6%	65.5%	60.1%	65.0%
New Hampshire	51.0%	51.7%	53.8%	55.7%	58.5%
New Jersey	101.8%	71.1%	59.2%	60.6%	60.4%
New Mexico	63.4%	63.9%	58.1%	52.9%	55.9%
New York	89.7%	65.5%	68.7%	72.2%	98.1%
North Carolina	56.3%	77.6%	55.4%	56.4%	54.5%
North Dakota	36.8%	105.4%	50.1%	47.4%	72.3%
Ohio	62.8%	62.8%	55.4%	58.0%	63.1%
Oklahoma	72.1%	74.5%	94.6%	80.8%	77.6%
Oregon	54.9%	53.4%	55.9%	59.6%	60.9%
Pennsylvania	60.5%	63.9%	63.3%	57.1%	62.5%
Rhode Island	59.4%	62.2%	67.1%	53.3%	45.4%
South Carolina	53.5%	65.6%	56.8%	52.7%	52.0%
South Dakota	90.5%	68.3%	68.0%	52.2%	57.1%
Tennessee	66.5%	99.0%	70.6%	60.8%	63.8%
Texas	59.3%	63.4%	52.0%	59.6%	88.2%
Utah	54.5%	59.6%	50.1%	53.7%	53.8%
Vermont	41.4%	58.9%	53.8%	45.8%	59.6%
Virginia	57.6%	67.1%	56.4%	57.7%	56.8%
Washington	54.8%	53.4%	55.6%	60.7%	54.6%
West Virginia	57.3%	48.9%	59.8%	60.4%	56.1%
Wisconsin	57.7%	61.4%	62.7%	58.0%	62.8%
Wyoming	48.0%	70.9%	62.5%	54.7%	53.8%

INSURANCE OPERATIONS (CONT'D.)

Table 5 provides the net underwriting performance by market and by line. As seen, the overall pure net loss ratio (PNLR) improved 4.8-percentage points to 62.1% as all three markets shown year-over-year improvements.

Personal Lines

In the personal market, net premiums earned increased 2.7% relative to 2011 to $236.9 billion, while net losses incurred fell 5.2% to $151.2 billion, resulting in a 5.3-percentage point decrease in the PNLR to 63.8%. The majority of the improvement occurred within the homeowners line as the PNLR decreased 17.6-percentage points to 63.0%, due to a 19.1% drop in net losses incurred while premiums earned rose 3.5% compared to the year before. The PNLR for the private passenger auto liability and auto physical damage lines showed modest improvements to 63.7% and 64.7%, respectively.

Commercial Lines

The PNLR in the commercial market has been relatively flat over the last three years, measuring at 57.5% in 2012, only slightly better than the 58.9% in 2011. As seen in the table, the PNLR within the top commercial lines showed mild to moderate fluctuations. Some key highlights include a 3.0-percentage point improvement in the workers' compensation line to 67.9%, a reflection of higher rates and economic improvement. Despite litigation concerns in the medical professional liability line, the PNLR remained low at 41.9%. Although the PNLR in the financial guaranty line is still poor at 84.4%, a 53.2-percentage point improvement brought some much needed relief to the sector, mostly due to a sharp reduction in net losses incurred within two insurers. The products liability and farmowners multiple peril sectors also saw double-digit improvements of 37.6-percentage points and 18.4-percentage points, respectively, while the excess workers' compensation line saw a 25.1-percentage point deterioration to 115.7%.

Combined Lines

The combined lines PNLR improved 11.4-percentage point to 67.8% mostly due to a sharp decline in net losses incurred within the reinsurance (nonproportional) and mortgage guaranty sectors. Overall, net losses incurred fell 12.3% for the combined lines market to $40.4 billion, while net premiums earned increased 2.4% to $59.6 billion. Not all news was good for the combined liens market, as the allied lines PNLR rose 9.0-percentage points to 91.4% due to the significant drought and losses related to Sandy—although the majority of losses were federal flood losses.

Table 5.
Pure Net Loss Ratio

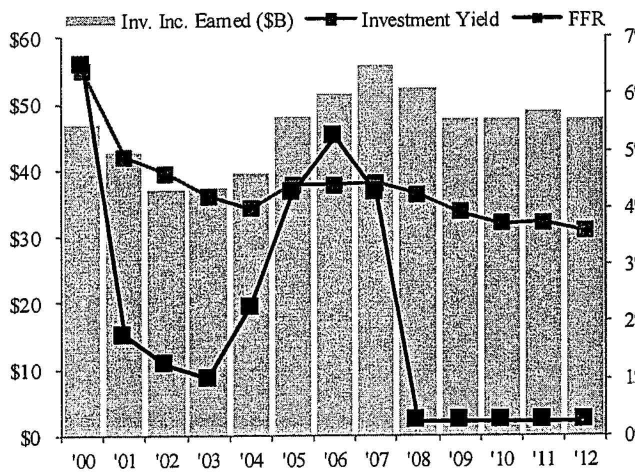
	Pt. Chg.	2012	2011	2010
Personal Lines	(5.3) pts	63.8%	69.1%	64.0%
Commercial Lines	(1.4) pts	57.5%	58.9%	57.8%
Combined Lines	(11.4) pts	67.8%	79.2%	58.5%
P/C Total	(4.8) pts	62.1%	66.9%	61.1%
Personal Lines				
Prvt. Psgr. Auto Liability	(1.0) pts	63.7%	64.7%	66.6%
Auto Physical Damage	(0.1) pts	64.7%	64.8%	58.4%
Homeowners	(17.6) pts	63.0%	80.6%	66.1%
Commercial Lines				
Workers' Compensation	(3.0) pts	67.9%	70.9%	72.6%
Other Liability	4.5 pts	53.1%	48.5%	56.4%
Commercial Multiple Peril	(7.8) pts	56.0%	63.8%	51.9%
Commercial Auto Liability	5.1 pts	62.7%	57.7%	53.9%
Medical Professional Liability	6.7 pts	41.9%	35.2%	32.1%
Surety	4.6 pts	19.6%	15.0%	14.5%
Group A&H	(3.2) pts	64.3%	67.5%	63.9%
Farmowners	(18.4) pts	59.9%	78.3%	68.6%
Ocean Marine	6.1 pts	63.7%	57.6%	50.7%
Products Liability	(37.6) pts	31.1%	68.7%	73.8%
Financial Guaranty	(53.2) pts	84.4%	137.6%	148.5%
Boiler & Machinery	3.4 pts	40.8%	37.4%	32.0%
Credit	7.9 pts	45.4%	37.4%	75.5%
Aircraft (all perils)	(4.4) pts	54.1%	58.5%	52.1%
Fidelity	(3.0) pts	55.3%	58.2%	54.5%
Excess Workers' Compensation	25.1 pts	115.7%	90.6%	21.7%
Burglary & Theft	(6.7) pts	20.5%	27.2%	30.6%
Combined Lines				
Reinsurance (Nonproportional)	(34.1) pts	48.5%	82.6%	45.2%
Allied Lines	9.0 pts	91.4%	82.4%	54.7%
Fire	(6.0) pts	49.9%	56.0%	42.0%
Inland Marine	(1.2) pts	56.4%	57.6%	46.2%
Mortgage Guaranty	(30.8) pts	161.6%	192.4%	171.0%
Other A&H	0.0 pts	83.2%	83.1%	83.5%
Warranty	0.2 pts	72.6%	72.3%	69.9%
Earthquake	(21.8) pts	5.5%	27.3%	14.2%
Aggregate Write-Ins	(24.0) pts	23.2%	47.1%	43.3%
International	(17.6) pts	30.2%	47.8%	123.3%
Credit A&H	9.5 pts	19.7%	10.2%	15.3%

(Ordered by 2012 Net Premiums Earned)

INVESTMENT OPERATIONS

Investment income remained depressed due to the continued low interest rate environment. The federal funds rate (FFR) has fallen from 5.25% in June 2006 to just 0.25% where it has held since December 2008. As a result, the industry's investment yield—a measure of net investment income earned to average cash and invested assets—decreased 80-basis points from 4.4% in 2006 to a 10-year low of 3.6% in 2012, shown in **Figure 3**. Overall, net investment income earned decreased 2.6% year-over-year to $47.7 billion while average cash and invested assets increased 1.2% to $1.3 trillion.

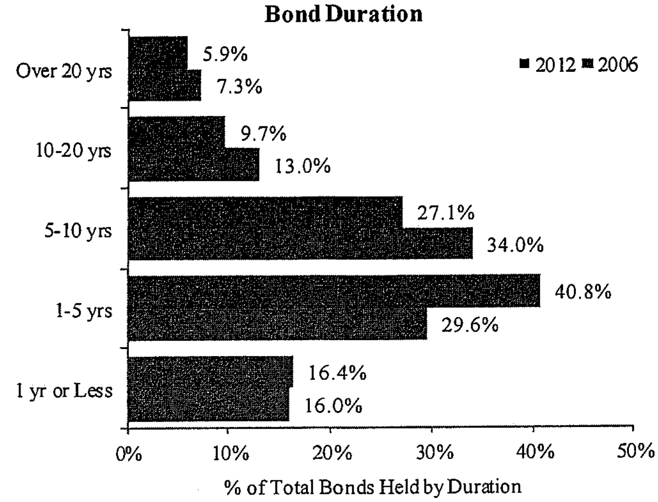
Figure 3.
Investment Profit



In accordance with the low interest rate environment, the decrease in investment income earned since 2006 primarily stemmed from a 27.3% or $5.6 billion decrease in U.S. Government bonds and tax-exempt bonds to $14.8 billion and a 96.4% or $4.6 billion decrease in cash, cash equivalents, and short-term investments to just $173.7 million. At the same time, investment income earned from other invested assets increased 75.0% or $3.3 billion to $7.7 billion and other unaffiliated bonds increased 13.7% or $2.6 billion to $21.9 billion, which indicates that insurers are investing more aggressively.

Net realized capital gains increased by 11.1% to $8.7 billion in 2012 compared to $7.8 billion in 2011. The majority of the gains (in pre-tax dollars) derived from unaffiliated non-Government bonds totaling $3.9 billion, followed by a gain of $3.0 billion in unaffiliated common stocks and $1.8 billion in affiliated common stocks. In 2007, before interest rates fell, the majority of gains derived from unaffiliated common stocks totaled $8.0 billion, while gains from bonds were nominal.

Figure 4.
Bond Duration

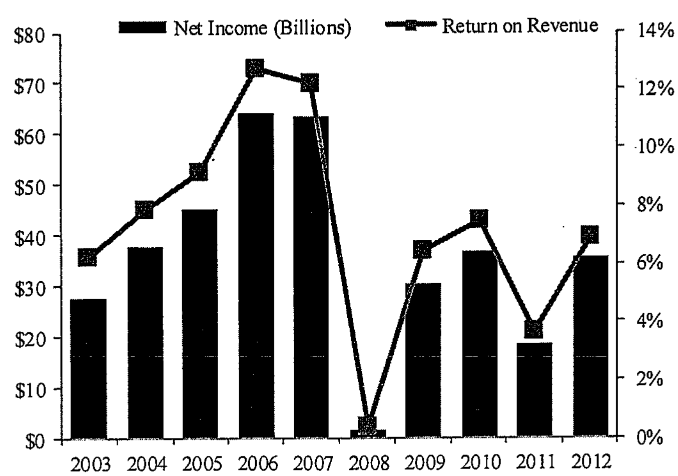


Although the industry remains heavily invested in bonds, there has been a material shift in bonds with durations of five years or less, seen in **Figure 4**, signifying that insurers are anticipating a pro-longed period of lower long-term yields and continued slow economic recovery. In comparison to 2006, investments in bonds with shorter-term duration (5 years or less) accounted for 57.2% of total bonds in 2012, versus 45.6% in 2006.

NET INCOME

The industry's bottom line increased 92.7% to $35.2 billion in 2012 from $18.3 billion in 2011. The improvement stemmed from higher premium rates and lower incurred losses that attributed to improved underwriting results. Return on revenue—a measure of net income to net premiums earned, net investment income earned, and realized gains (losses)—improved to 6.9% or 3.2-percentage points higher than the 3.7% recorded in the prior year.

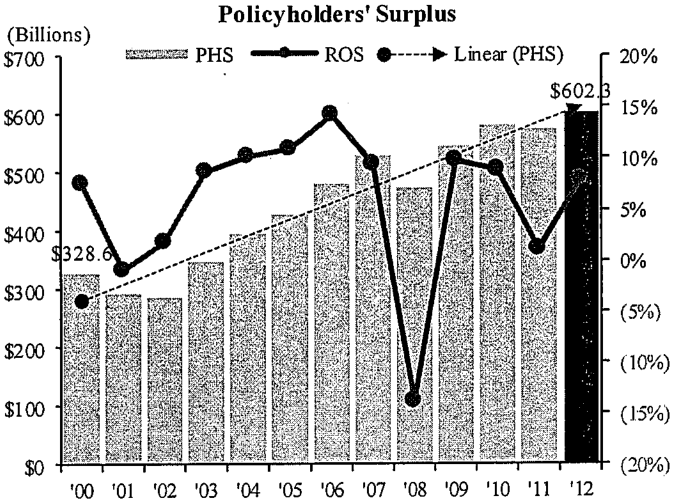
Figure 5.
Net Income



POLICYHOLDERS' SURPLUS

Industry aggregated policyholders' surplus (adjusted for affiliated investments) increased 5.1% since the prior year-end to a new high of $602.3 billion, shown in **Figure 6.** This increase was mostly attributed to net income of $35.2 billion, unrealized capital gains of $11.4 billion, and $5.6 billion in paid-in surplus, partially offset by $32.1 billion in stockholder dividends and aggregate write-ins for losses in surplus totaling $2.8 billion. Return on surplus—a measure of net income and unrealized capital gains (losses) to average policyholders' surplus—increased 6.9-percentage points to 7.9% from 1.0% at prior year-end.

Figure 6.
Policyholders' Surplus



CASH & LIQUIDITY

Net cash provided by operating activities totaled $38.6 billion in 2012 compared to $18.0 billion for the year prior. The improvement was driven by higher net premiums earned that increased cash inflows by 3.6% to $512.3 billion (adjusted for affiliated investments), while lower net losses incurred reduced cash outflows by 0.6% to $473.7 billion. Net cash from investing activities was $(13.0) billion compared to $(17.4) billion in 2011, primarily as the industry acquired fewer bonds in 2012. Net cash used by financing and miscellaneous sources totaled $29.6 billion, which mostly consisted of stockholder dividends. Overall, cash and short-term investments decreased $4.0 billion during the year.

The industry's liquidity position remained very strong at 81.5%, as liquid assets (less affiliated investments) rose to $1.2 trillion while adjusted liabilities increased at a lesser rate to $982.7 billion. The resulting change in the liquidity ratio was a nominal 0.8-percentage point decrease.

RESERVES

Aggregate loss and LAE reserves decreased by 0.8% or $5.1 billion to $608.3 billion at year-end 2012 from $613.3 billion at the prior year-end. The majority of the decline occurred within the financial guaranty and mortgage guaranty lines, as collectively reserves decreased by 37.4% or $9.8 billion, which coincides with reduced writings. Other notable declines include a 0.9% or $1.4 billion decrease in workers' compensation reserves, a 6.8% or $1.1 billion decrease in products liability-occurrence reserves, and a 2.7% or $981 million decrease in reinsurance—nonproportional assumed liability reserves. Lines of business with material increases in reserves include the special property line (fire, allied lines, inland marine, earthquake, and burglary & theft) that saw an 11.4% or $2.0 billion increase, and reserves within the private passenger auto liability line increased by 1.3% or $1.2 billion. **Table 6**, shows the one-year and two-year loss reserve development by line, with an overall one-year redundancy of $10.2 billion and two-year redundancy of $20.5 billion.

Table 6.
Loss Reserve Development (in Millions)

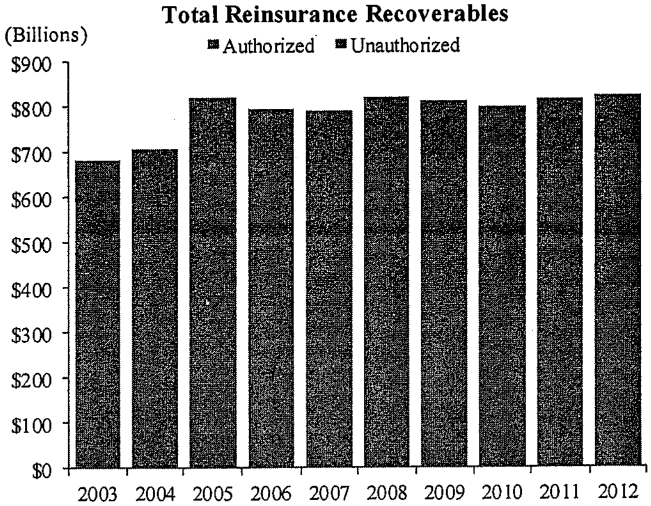
	1-Yr	2-Yr
Homeowners/Farmowners	($1,593)	($1,600)
Private Passenger Auto Liability/Medical	($2,775)	($4,452)
Commercial Auto/Truck Liability/Medical	$537	($224)
Workers' Compensation	($978)	($974)
Commercial Multiple Peril	$143	($723)
Medical Professional Liability - Occurrence	($414)	($839)
Medical Professional Liability - Claims-Made	($1,399)	($2,732)
Special Liab (Ocean Mar, Aircraft, Boiler&Mach)	($421)	($753)
Other Liability - Occurrence	$790	($935)
Other Liability - Claims-Made	($526)	($1,094)
Special Prop (Fire, Allied, Inland Mar, EQ, B&T)	($495)	($1,497)
Auto Physical Damage	($1,963)	($1,846)
Fidelity /Surety	($276)	($694)
Other (including Credit, A&H)	$299	$184
International	($29)	($52)
Reinsurance (Nonpro-Property)	($785)	($978)
Reinsurance (Nonpro-Liability)	($888)	($1,203)
Reinsurance (Nonpro-Financial)	($27)	($109)
Product Liability - Occurrence	($4)	$1,107
Product Liability - Claims-Made	($42)	($46)
Financial Guaranty/Mortgage Guaranty	$621	($1,046)
Warranty	$40	$45
Total	**($10,185)**	**($20,460)**

(Shown in order of appearance in Annual Statement Sch. P - Pt. 2 pages)

REINSURANCE

Total amounts recoverable from reinsurers for the industry increased 2.0% to $830.5 billion in 2012 from $814.0 billion in 2011. Authorized balances represented 86.4% of total recoverable balances, totaling $717.4 billion, which is 2.5% higher compared to the prior year. Unauthorized balances represented 13.0% of total recoverable balances, totaling $107.8 billion, which is 5.3% lower compared to the prior year. Leverage related to net recoverable balances decreased to 129.7% of policyholders' surplus in 2012 from 133.7% in 2011. Amounts recoverable on paid loss and LAE increased 2.2% to $30.7 billion (5.1% of policyholders' surplus), whereby $25.3 billion represented authorized reinsurance and $5.2 billion unauthorized. Total overdue reinsurance balances on paid losses and LAE was $3.1 billion or 10.0% of total amounts recoverable. Authorized overdue balances totaled $2.2 billion or 70.8% of total overdue while unauthorized overdue balances totaled $883.3 million or 28.8% of the total.

Figure 7.
Total Reinsurance Recoverables



PROFESSIONAL REINSURERS

The NAIC defines the professional reinsurance market as insurers that collectively comprise the top 75% of non-affiliated assumption. In 2012, 31 insurers represented the professional reinsurer market with a combined non-affiliated assumptions of $36.2 billion, representing 75.3% of the non-affiliated assumed premiums market. **Table 7** provides a list of the 2012 professional reinsurance market along with key financial highlights.

With respect to the professional reinsurance market overall, return on revenue improved 1.2-percentage points to 13.9%, due to higher net profits as a result of lower incurred losses compared to the prior year. Net income totaled $9.6 billion, as a net underwriting loss of $3.4 billion was offset by a net investment gain of $14.4 billion. The net loss ratio improved 5.2-percentage points in 2012 to 77.6% compared to 82.8% in 2011 while the expense ratio increased 0.8-percentage points to 28.3%, resulting in a 4.5-percentage point improvement in the combined ratio to 105.9%. With respect to assumed business, assumed losses incurred totaling $55.4 billion and accounted for 65.7% of assumed premiums earned. Prior year reserves continued to develop favorably in 2012, as the one-year reserve development was redundant by $38 million and the two-year development was redundant by $866 million. Operating cash flow remains positive at $14.4 billion and the liquidity ratio improved, but was still poor at 100.4%.

Table 7.
Professional Reinsurance Market

Reinsurer	Non-Aff APW	Net Income	Return on Revenue	Return on Surplus
National Ind Co	$5,911	$5,366	43.1%	16.7%
Swiss Reins Amer Corp	$4,394	$432	25.7%	9.6%
Transatlantic Reins Co	$3,175	$345	9.7%	8.8%
Everest Reins Co	$2,518	$360	19.0%	19.6%
Munich Reins Amer Inc	$2,373	$378	10.9%	9.2%
Odyssey Reins Co	$1,828	$175	8.8%	11.4%
Partner Reins Co Of The US	$1,220	$181	17.1%	15.2%
Firemans Fund Ins Co	$1,111	($815)	(22.0%)	(28.6%)
General Reins Corp	$1,051	$433	38.5%	14.5%
Rural Comm Ins Co	$941	($6)	(1.4%)	(1.1%)
American Agricultural Ins Co	$905	$10	3.0%	3.5%
Scor Reins Co	$814	($89)	(11.5%)	(12.9%)
Ace Amer Ins Co	$799	$59	3.3%	7.5%
Hartford Steam Boil Inspec	$662	$128	17.8%	22.8%
Empire Fire & Marine Ins Co	$645	$3	100.5%	5.7%
Maiden Reins Co	$640	($19)	(5.9%)	(6.8%)
Berkley Ins Co	$599	$295	14.8%	10.5%
Liberty Mut Ins Co	$574	$164	1.5%	3.4%
QBE Ins Corp	$553	($24)	(2.9%)	(4.6%)
AXIS Reins Co	$550	$35	7.3%	5.8%
XL Reins Amer Inc	$522	$66	6.8%	4.7%
Nat'l Union Fire Ins Co of Pitts	$508	$1,039	15.6%	6.1%
Ace Prop & Cas Ins Co	$494	$69	4.1%	6.7%
Endurance Reins Corp of Amer	$487	($20)	(7.4%)	(25.1%)
Toa Re Ins Co Of Amer	$471	$33	7.5%	8.3%
Lexington Ins Co	$447	$409	7.4%	6.8%
Alterra Reins USA Inc	$425	$10	4.5%	(2.0%)
QBE Reins Corp	$409	$5	1.3%	(3.4%)
Agrinational Ins Co	$406	($22)	(13.9%)	(14.7%)
Factory Mut Ins Co	$395	$612	19.3%	16.1%
Arch Reins Co	$381	$7	3.9%	(3.0%)

($ in Millions)

Catastrophe Report

GLOBAL CATASTROPHES

Global catastrophic events made numerous headlines in 2012 as people around the globe were impacted by multiple devastating events. According to Munich Re's 2012 Natural Catastrophe Year in Review, 905 catastrophic loss events took place throughout the year compared to 820 in the prior year and an average of 800 for the prior 10-year period. Globally, economic losses totaled $160 billion which was slightly below the 10-year average of $165 billion. However insured losses totaling $65 billion were well above the 10-year average of $50 billion. The insurance losses recorded for the year rank 2012 as the third most costly year for insurers in history, on a global basis, behind 2005 and 2011. Meteorological events were the dominant cause of catastrophe related losses during the year representing 63% of overall losses and 83% of insured losses reported. Almost 70% of overall losses and over 90% of global insured losses occurred in North America during 2012. Globally there were significantly less fatalities reported related to catastrophic events for the year at 9,500 compared to 27,000 in 2011.

U.S. CATASTROPHES

The United States experienced the majority of the world's economic and insured losses in 2012. Of the $165 billion in overall losses reported during the year the U.S. accounted for approximately 67% of total. As for the $65 billion of global insured losses the U.S. accounted for over 90% or $57.9 billion. The U.S. experienced over 180 natural catastrophic events during the year including 19 floods, 2 major winter storms, 38 wildfires, 2 droughts, 115 severe thunderstorms, and 4 hurricanes. Tornados, of which there were relatively few, contributed over $14 billion to total insured losses the second highest recorded annual amount. The overall loss data for property lines most impacted by 2012 catastrophic events are provided in the table below.

State	All Property	Home MP	Farm MP	Earthquake	Auto Phys Dmg	Allied Lines	MP Crop	Flood	Ocean Marine	Inland Marine	Comm MP (non-liab)	Fire
NJ	101.8%	126.4%	88.7%	(12.0%)	80.2%	417.9%	(66.5%)	1,429.2%	285.5%	163.0%	160.1%	69.2%
SD	90.5%	67.7%	58.7%	(9.4%)	64.7%	74.5%	156.4%	60.3%	37.4%	59.4%	54.2%	43.1%
NY	89.7%	80.4%	54.2%	(10.3%)	101.2%	452.4%	77.3%	1,665.5%	131.4%	152.3%	101.8%	63.7%
MI	86.4%	55.0%	52.0%	279.7%	65.1%	79.5%	66.6%	61.4%	168.7%	57.0%	61.3%	36.9%
NE	84.1%	60.1%	67.4%	(20.0%)	63.1%	63.3%	215.1%	4.1%	33.7%	37.1%	54.9%	30.5%
Industry Average	63.4%	58.7%	62.5%	(1.3%)	64.5%	77.0%	138.3%	196.5%	62.9%	57.7%	61.6%	37.9%

New Jersey experienced the worst pure direct loss ratio (PDLR) overall at 101.8%, followed by South Dakota at 90.5% and New York rounding out the top three at 89.7%. The states with the highest PDLR ratios were those impacted by Sandy in October and those states hit hardest by the severe drought which impacted the country's major agricultural states in the Midwestern region.

Of the 4 hurricanes making landfall in the U.S. during 2012, Sandy was by far the largest in terms of size, damage and economic impact. In fact, per the National Oceanic and Atmospheric Administration, Sandy was the largest diameter Atlantic hurricane on record. The storm itself engulfed an area the size of the state of Texas as it moved up the Atlantic seacoast eventually making landfall just south of Atlantic City, New Jersey. Although winds associated with the storm topped out close to 90 mph, flooding caused the majority of damage and losses as it made its way through the northeastern U.S. The storm brought a record breaking 13.9-foot storm surge to the southern edge of Manhattan and a 15-foot surge on the New Jersey coastline. The devastation from the deluge of water caused overall economic losses totaling $50 billion and insured losses of $25 billion.

The severe droughts that encompassed a large portion of the U.S. farm belt were responsible for estimated economic losses approaching $20 billion and estimated insured losses of $16 billion (including Federal Crop Insurance Losses). The droughts were the worst in the past 76 years and affected over 60% of the country in 36 states and over 1,600 counties. Not since the dust bowl of the Great Depression Era had the U.S. experienced droughts of a greater magnitude.

CATASTROPHE REPORT (CONT'D.)

TIMELINE OF EVENTS

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Europe
Winter Storm Adrea
- Date: Jan. 2012
- Winds in excess of 124 mph
- Economic Losses exceeded $700M
- Insured Losses $400M

Africa, Mozambique
Cyclone Funso
- Dates: Jan. 19-28
- Fatalities: 46
- 140 mph winds equivalent to Category 4 hurricane

Australia, New South Wales
Flash Floods
- Dates: Feb. - March
- Est. Economic Losses in excess of $500M
- Multiple bridges and roads damaged

United States, Midwest, Tennessee Valley & South
Severe Storms & Tornados
- Dates: Mar. 2-3
- Insured Losses $1.1B
- 170,000 claims filed
- Town of Henryville, IN destroyed by EF-4 tornado with est. 170 mph winds
- Over 45 confirmed tornados reported
- 40 storm related deaths

Mexico, Oaxaca
Earthquake
- Date: March 20
- Est. Insured Losses $100M
- Magnitude 7.4
- No deaths
- 500 homes destroyed

United States, St. Louis Metro Area
Large Hail Event
- Dates: Apr. 28-29
- Est. Insured Losses $450 M
- Est. 100,000 claims for damage
- Baseball sized hail reported

United States, New Mexico
Whitewater-Baldy Wildfire
- Baldy Fire started May 9 due to lightning strike
- Whitewater Fire started May 16 due to lightning
- Fires merged on May 23
- Over 290,000 acres burned
- Minimal impact to insurers

Italy
Earthquakes
- Date: May 20/29
- Fatalities: 23
- First earthquake magnitude 5.9
- Second magnitude 5.8
- 800 aftershocks caused additional damage & losses
- Numerous historic structures destroyed

United States, Ft. Collins Colorado
High Park Wildfire
- Started June 9
- Caused by lightning strike
- Est. Insured Losses $97.1M
- 259 homes destroyed
- 87,000 acres burned

United States, Colorado
Waldo Canyon Wildfire
- Started June 23
- Caused by human activity
- Est. Insured Losses $352.6M
- 346 homes destroyed
- The most destructive wildfire in Colorado history
- Consumed more than 18,000 acres

United States, Midwest to Mid-Atlantic
Derecho Storm
- June 29
- Storm traveled 600 miles in just 10 hours
- Peak wind gusts 80-100 mph
- Millions left without power

United States, Drought
- Summer 2012
- Most severe and extensive drought in 76 years.
- 80% of agricultural land experienced drought
- Encompassed a large amount of the country's farm belt

United States, Southeast
Hurricane Isaac
- Made landfall August 28 over Mississippi River delta and Port Fourchon, LA
- Storm surge up to 11 feet
- Significant inland flooding due to heavy rainfall
- Economic losses of $2.0 billion, insured losses of $1.2 billion

United States, Northeast
Hurricane Sandy
- Made landfall on October 29 near Atlantic City, NJ
- Minor to moderate wind damage, majority of damage caused by flooding
- Storm surge of 13.9 feet in Battery Park, NY and over 15 feet along NJ coast
- Economic losses of $50 billion, insured losses of $25 billion
- Largest diameter hurricane on record in history of the Atlantic Basin

Philippines
Typhoon Bopha
- December 4-5
- Category 5 storm with winds over 160 mph upon landfall
- More than 1,000 deaths
- 400,000 people displaced by storm
- Overall losses of $600M
- Insured losses were considered minor

TITLE INDUSTRY

Premium

The U.S. title industry has started to display signs of improvement. Direct business written increased 21.9% to $11.3 billion in the current year from $9.3 billion in 2011. Assumptions declined slightly to $23 million from the $26 million reported for 2011, leading to a 21.8% increase in gross writings to $11.3 billion. Cessions totaled $58 million, resulting in a 21.6% year-over-year increase in net writings to $11.2 billion (99.5% retention). The gross and net writings leverage ratios were at 292.0% and 290.5%, respectively.

Profitability

For the first time since the housing crisis began the industry has recorded a net operating gain at $503 million, a 2,340.8% improvement from the prior year. The improvement was due to a $1.8 billion rise in operating income to $12.2 billion while total operating expense rose only $1.3 billion to $11.7 billion. The combined ratio improved 8.4-percentage points due to a 4.2-percentage point decrease in both the loss ratio and expense ratio to 7.6% and 96.7%, respectively.

The industry reported net investment gains of $357 million, a 6.2% decrease from prior year-end. Net investment income reported a 7.3% year-over-year decline to $321 million, partially offsetting was a 5.9% rise in net realized capital gains to $36 million. Investment yield - a measure of net investment income earned over average cash and invested assets (excluding affiliated investments) declined 0.7-percentage points to 4.7%.

Overall, the industry reported a significant improvement in profitability with a net income of $722 million versus net income of $309 million in 2011.

Capital & Surplus

Industry aggregated policyholders' surplus increased 30.1% to $3.9 billion, the majority of which was due to the 133.5% increase in net income to $722 million and a 273.9% rise in net unrealized gains to $176 million.

Return on surplus - a measure of net income and unrealized capital gains (losses) to average policyholders' surplus rose 19.2-percentage points to 26.2%.

Cash & Liquidity

Net cash from operations recorded a 405.5% increase to $842 million compared to $167.0 million reported in the prior year. Cash inflows rose 17.5% to $ 12.6 billion while cash outflows increased at a lesser rate of 11.4% to $11.7 billion. Net cash used by investing activities totaled $466.1 million and net cash used by financing activities totaled $165.7 million for an overall increase in cash, cash equivalents and short-term investments of $210.1 million.

The industry's liquidity ratio improved 14.5-percentage points to 81.7%. The improvement was attributed to a 12.1% increase in liquid assets and a 4.8% decrease in adjusted liabilities.

Table 8.
Title Industry Results

($ Millions)	Chg.	2012	2011	2010
Insurance Operations				
Net Premiums Written	21.6%	$11,246	$9,249	$9,438
Title Premiums Earned	19.9%	$11,230	$9,364	$9,403
Loss & LAE Incurred	(22.9)%	$849	$1,102	$1,105
Operating Exp Incurred	16.9%	$10,874	$9,300	$9,597
Net Operating Gain/(Loss)	-	$503	$(22)	$(214)
Loss Ratio	(4.2)-pts	7.6%	11.8%	11.8%
Expense Ratio	(4.2)-pts	96.7%	100.9%	101.7%
Combined Ratio	(8.4)-pts	104.3%	112.7%	113.4%
Net Cash from Operations	405.0%	$842	$167	$167
Liquidity Ratio	(14.5)-pts	81.7%	96.3%	98.3%
Investment Operations				
Net Inv. Income Earned	(7.3)%	$321	$346	$334
Investment Yield	(0.7)-pts	4.7%	5.4%	5.3%
Net Realized Gain/(Loss)	5.9%	$36	$34	$(80)
Capital and Surplus				
Net Income	133.5%	$722	$309	$31
Net Unrealized Gain/(Loss)	-	$176	$(101)	$431
Policyholders' Surplus	30.1%	$3,871	$2,975	$2,984
Return on Surplus	19.2-pts	26.2%	7.0%	14.9%

DISCLAIMER

The NAIC 2012 Property & Casualty and Title Insurance Mid-Year Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of December 31, 2012, 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.

NAIC
National Association of Insurance Commissioners

Contributors

NAIC Financial Regulatory Services Department
Dan Daveline, Assistant Director
Andy Daleo, Manager
Rodney Good, Analyst
Jason Farr, Analyst
Bree Wilson, Analyst

MARYLAND
INSURANCE
ADMINISTRATION

2012 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland

November 19, 2012

Exhibit E

Maryland Insurance Administration

2012 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland

Table of Contents

I. Preface

Each year, the Maryland Insurance Commissioner ("Commissioner") is required to report to the Governor and the General Assembly on the effect of competitive rating on the insurance markets in the State. (*See* Ins. Art. §11-338.) This report summarizes Maryland's competitive rating law and provides information on competitiveness in two of the most important insurance markets for consumers, private passenger automobile insurance and homeowners insurance, for calendar year 2011.

II. Competitive Rating

The Insurance Reform Act of 1995 (HB 923, Competitive Rating) authorized insurers to use rates for certain lines of property and casualty insurance without the prior approval of the Commissioner. Each authorized insurer and each rating organization designated by an insurer for the filing of rates must file with the Commissioner all rates and supplementary rate information as well as any changes to rates or supplementary rate information on or before the date they become effective. (*See* Ins. Art. §11-307.) Rates may not be excessive, inadequate, or unfairly discriminatory. (Ins. Art. § 11-306(b)(1).) Under competitive rating, the Commissioner may not find a rate to be excessive unless it is unreasonably high for the insurance provided and the Commissioner has issued a ruling that a reasonable degree of competition does not exist in a market to which the rate is applicable. (Ins. Art. §11-306.)

States moved from prior approval of rates to competitive rating to allow insurers to react quickly to business cycles. When claims experience is favorable, it is anticipated that insurers generally will act to decrease rates and/or relax underwriting restrictions to increase their market share. When claims experience deteriorates, it is anticipated that insurers generally will act to increase rates and/or tighten their underwriting standards to accept less risk. Proponents of competitive rating maintain that competition between insurers prevents excessive rates even during a downturn in the underwriting business cycle because insurers are not willing to raise rates to the point where they will lose significant market share to one or more competitors. Moreover, competition encourages insurers to accept more risks, making insurance widely available to consumers. Factors relevant to market competitiveness include, among other things, the number of insurers providing coverage in the market; the market share concentration of those insurers; and changes in market share of the insurers.

III. Private Passenger Automobile Insurance

During calendar year 2011, there were 157 companies actively providing private passenger automobile insurance and related products in the State of Maryland, compared to 159 companies in 2010. Many of these companies are owned by holding companies. This report refers to two or more individual companies owned by a common holding company as an "insurer group."[1] Exhibit 1 identifies the top ten insurer groups by 2011 written premium, the individual companies comprising each insurer group and the 2011 written premium for the insurer group as well as for each individual company within the group. Of the 157 companies writing private passenger automobile insurance, 59 are part of a top ten insurer group.

The market share for the top ten insurer groups has remained relatively stable between 2006 and 2011. (*See* Exhibit 1A) In 2006, these top ten insurer groups accounted for about 87.7 percent of the private passenger automobile insurance market, increasing to about 90.0 percent in 2011.

[1] Insurer groups are being used in this report as opposed to individual companies as this provides a more consistent comparison of data over the years due to individual company mergers and acquisitions.

A commonly accepted measure of market concentration is the Herfindahl-Hirschman Index (HHI).[2] Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated and those in which the HHI is in excess of 1800 points are considered to be concentrated. The following chart reflects the number of insurers offering private passenger automobile insurance in Maryland for the five-year period from 2007 through 2011, as well as the HHI for each year.

	2007	2008	2009	2010	2011
Number of PPA Insurers	134	148	151	159	157
HHI	1180	1188	1193	1189	1226

The change in HHI from 2010 to 2011 may be attributable to a one percent increase in market share for the market leader, as well as purchases of smaller insurers by other top ten insurer groups. Although there has been a modest change in market concentration, an HHI of 1226 is indicative of a market that remains moderately concentrated.

In the private passenger automobile insurance market, individuals with risk characteristics that private passenger automobile insurers are unwilling to accept are able to obtain coverage from the Maryland Automobile Insurance Fund (MAIF). Another indicator of the competitiveness of the private automobile insurance market is the market share held by MAIF. Over the six-year period from 2006 to 2011, MAIF's market share declined from approximately 3.7 percent to approximately 2.0 percent. During that same period, market share for the top insurer groups *excluding* MAIF increased from approximately 84.1 percent in 2006 to

[2] This is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

approximately 88.0 percent in 2011. These figures suggest that private passenger automobile insurers have competed for greater market share by accepting more risk.

IV. Homeowners Insurance

During calendar year 2011, there were 119 companies actively providing homeowners insurance in Maryland, compared to 129 in 2010. Of the 119 companies actively writing homeowners insurance, 47 belong to top ten insurer groups. Exhibit 2 identifies the top ten insurer groups, the individual companies comprising each insurer group and the 2011 written premium for the insurer group as well as for each individual company within the group.

The market share for the top ten insurer groups remained essentially stable from 2006 (85 percent) to 2011 (85.3 percent) (*See* Exhibit 2A.) The following chart reflects the number of insurers offering homeowners insurance in Maryland for the five-year period from 2007 through 2011, as well as the HHI for each year.

	2007	2008	2009	2010	2011
Number of Homeowners Insurers	110	117	129	129	119
HHI	1143	1137	1122	1116	1106

An HHI of 1106 indicates that the homeowners insurance market in Maryland remains moderately concentrated.

Another indicator of competition is the percentage of business held by the Joint Insurance Association ("JIA"), the State's residual property insurer. In 2011, JIA's market share was 0.10 percent, representing an approximately 55 percent reduction from its 2006 market share of 0.22 percent. These figures suggest that homeowners insurers have competed for greater market share by accepting more risk.

Although the homeowners insurance market is moderately concentrated, Maryland consumers continue to have many options when shopping for homeowners insurance. The Maryland Insurance Administration (MIA) will continue to monitor the market for any signs of reduced competitiveness, particularly in coastal areas of the State from which certain carriers have withdrawn or in which they no longer write new policies.[3]

V. Conclusion

When healthy competition exists in the private passenger automobile insurance and homeowners insurance markets, Maryland insurance consumers have a variety of choices with respect to insurers, products and pricing. In evaluating the competitiveness of the marketplace, the MIA takes into consideration the number of insurers in the marketplace, the concentration of the market shares of those insurers, and the changes in market share that occur over time. The market share information for 2011 indicates that Maryland's private passenger automobile insurance and homeowners insurance markets are moderately concentrated. For private passenger automobile insurance, the number of competitors in the market and a declining market share for MAIF suggest that this moderately concentrated market is competitive. Likewise, for homeowners insurance, the number of competitors and small market share for the residual market are indicators of a competitive market. The MIA will continue to monitor both markets for changes in market concentration, competitiveness and availability.

[3] Pursuant to Insurance Article Section 2-210 and COMAR 31.02.06, the Commissioner held a quasi-legislative hearing on the availability and affordability of personal and commercial property and casualty insurance in coastal areas of Maryland on December 13 and 14, 2011. A report on those proceedings can be found at http://www.mdinsurance.state.md.us/sa/docs/documents/home/reports/coastal-report-10-31-2012.pdf.

VI. Exhibits

Exhibit 1: List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

Exhibit 1A: Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2006 to 2011

Exhibit 2: List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

Exhibit 2A: Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the Joint Insurance Association from 2006 to 2011

Exhibit 1
List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
1	31	BERKSHIRE HATHAWAY GRP	812,285,778	GEICO GEN INS CO	354,587,013
				GOVERNMENT EMPLOYEES INS CO	274,430,331
				GEICO IND CO	153,729,313
				GEICO CAS CO	29,539,121
2	176	STATE FARM GRP	740,323,463	STATE FARM MUT AUTO INS CO	655,088,813
				STATE FARM FIRE & CAS CO	85,234,650
3	8	ALLSTATE INS GRP	481,535,695	ALLSTATE INS CO	211,091,110
				ALLSTATE IND CO	101,646,245
				ALLSTATE PROP & CAS INS CO	101,074,362
				ENCOMPASS HOME & AUTO INS CO	29,516,947
				ENCOMPASS INS CO OF AMER	15,720,475
				ESURANCE PROP & CAS INS CO	11,147,438
				ENCOMPASS IND CO	6,772,046
				ESURANCE INS CO	4,567,072
4	140	NATIONWIDE CORP GRP	349,236,318	NATIONWIDE MUT INS CO	133,943,586
				NATIONWIDE GEN INS CO	125,482,636
				NATIONWIDE MUT FIRE INS CO	51,097,192
				NATIONWIDE AFFINITY CO OF AMER	16,054,056
				TITAN IND CO	12,462,195
				NATIONWIDE INS CO OF AMER	4,252,425
				AMCO INS CO	3,212,357
				VICTORIA FIRE & CAS CO	844,384
				NATIONWIDE PROP & CAS INS CO	835,390
				ALLIED PROP & CAS INS CO	700,726
				NATIONWIDE ASSUR CO	303,764
				DEPOSITORS INS CO	47,607

Exhibit 1

List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

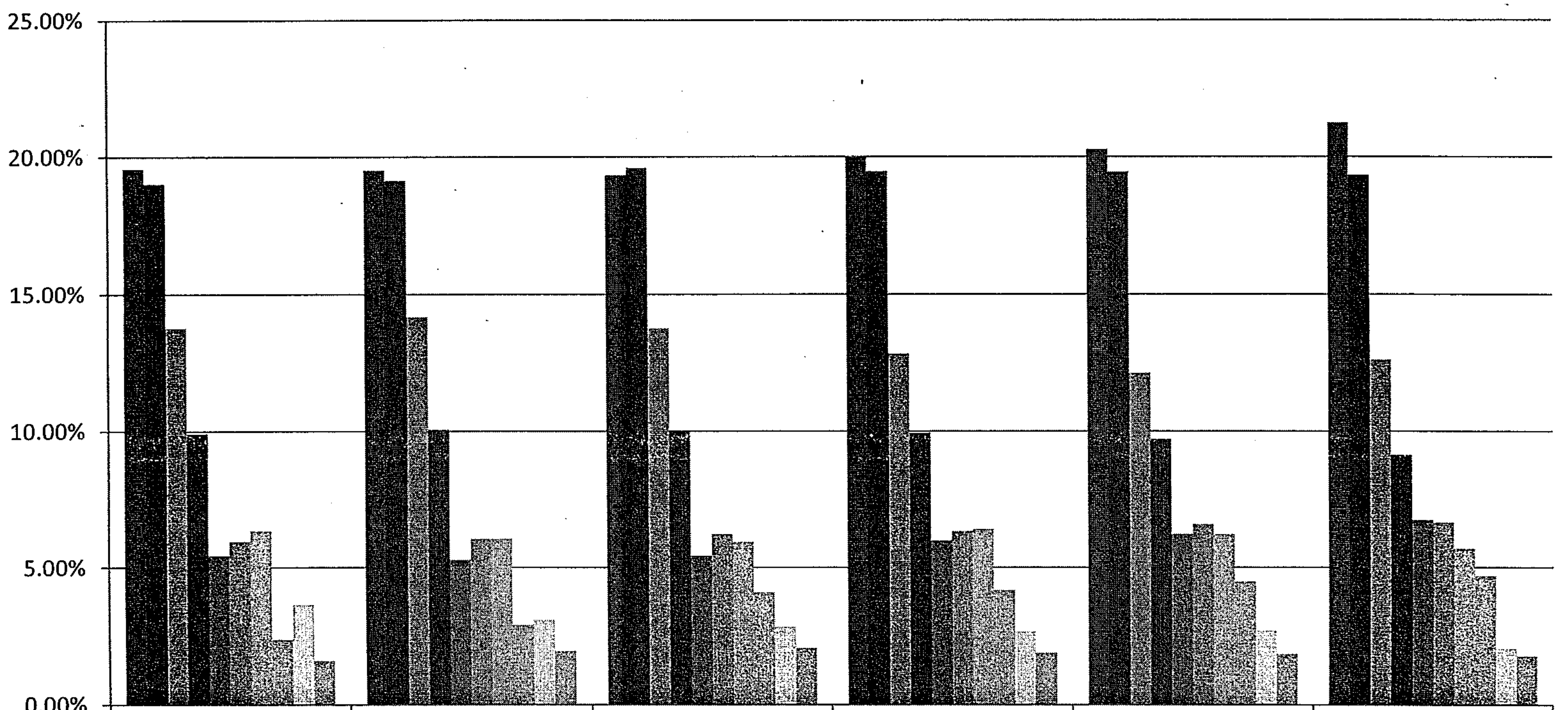
2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
5	200	UNITED SERV AUTOMOBILE ASSN GRP	258,200,058	UNITED SERV AUTOMOBILE ASSN	128,775,070
				USAA CAS INS CO	87,725,797
				GARRISON PROP & CAS INS CO	22,641,805
				USAA GEN IND CO	19,057,386
6	213	ERIE INS GRP	255,363,878	ERIE INS EXCH	250,437,391
				ERIE INS CO	4,926,487
7	155	PROGRESSIVE GRP	218,348,707	PROGRESSIVE ADVANCED INS CO	75,186,727
				PROGRESSIVE SPECIALTY INS CO	39,441,835
				PROGRESSIVE SELECT INS CO	32,979,743
				PROGRESSIVE DIRECT INS CO	27,940,886
				PROGRESSIVE AMER INS CO	20,597,184
				PROGRESSIVE CLASSIC INS CO	20,087,165
				PROGRESSIVE CAS INS CO	1,520,255
				PROGRESSIVE NORTHERN INS CO	594,912
8	111	LIBERTY MUT GRP	179,991,228	LIBERTY MUT FIRE INS CO	92,120,331
				AMERICAN STATES PREFERRED INS CO	39,947,124
				FIRST LIBERTY INS CORP	10,330,347
				LM GEN INS CO	7,391,452
				SAFECO INS CO OF IL	6,738,874
				SAFECO INS CO OF AMER	6,610,967
				MONTGOMERY MUT INS CO	6,405,228
				OHIO CAS INS CO	5,955,555
				LIBERTY INS CORP	1,832,075
				WEST AMER INS CO	1,505,366
				LM INS CORP	999,117
				FIRST NATL INS CO OF AMER	154,792

Exhibit 1

List of Insurers in the Top Ten Insurer Groups for Private Passenger Automobile Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
9	0	MAIF	78,509,015	MAIF	78,509,015
10	3548	TRAVELERS GRP	67,849,502	TRAVELERS HOME & MARINE INS CO	42,551,291
				TRAVELERS IND CO	9,104,947
				TRAVELERS COMMERCIAL INS CO	8,012,882
				TRAVELERS IND CO OF AMER	4,269,705
				STANDARD FIRE INS CO	3,191,423
				TRAVCO INS CO	719,254

Exhibit 1A
Comparison of Market Share of the Top Ten Insurer Groups for Private Passenger Automobile Insurance from 2006 to 2011



	2006	2007	2008	2009	2010	2011
GEICO	19.58%	19.52%	19.36%	19.98%	20.28%	21.25%
STATE FARM	19.05%	19.17%	19.62%	19.48%	19.46%	19.37%
ALLSTATE	13.75%	14.16%	13.74%	12.82%	12.11%	12.60%
NATIONWIDE	9.91%	10.07%	10.05%	9.94%	9.72%	9.14%
USAA	5.46%	5.28%	5.45%	5.99%	6.24%	6.75%
ERIE	5.97%	6.06%	6.25%	6.34%	6.60%	6.68%
PROGRESSIVE	6.36%	6.06%	5.95%	6.42%	6.23%	5.71%
LIBERTY MUTUAL	2.38%	2.92%	4.10%	4.17%	4.50%	4.71%
MAIF	3.67%	3.10%	2.85%	2.66%	2.71%	2.05%
TRAVELERS	1.60%	1.97%	2.07%	1.91%	1.84%	1.77%

Exhibit 2
List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

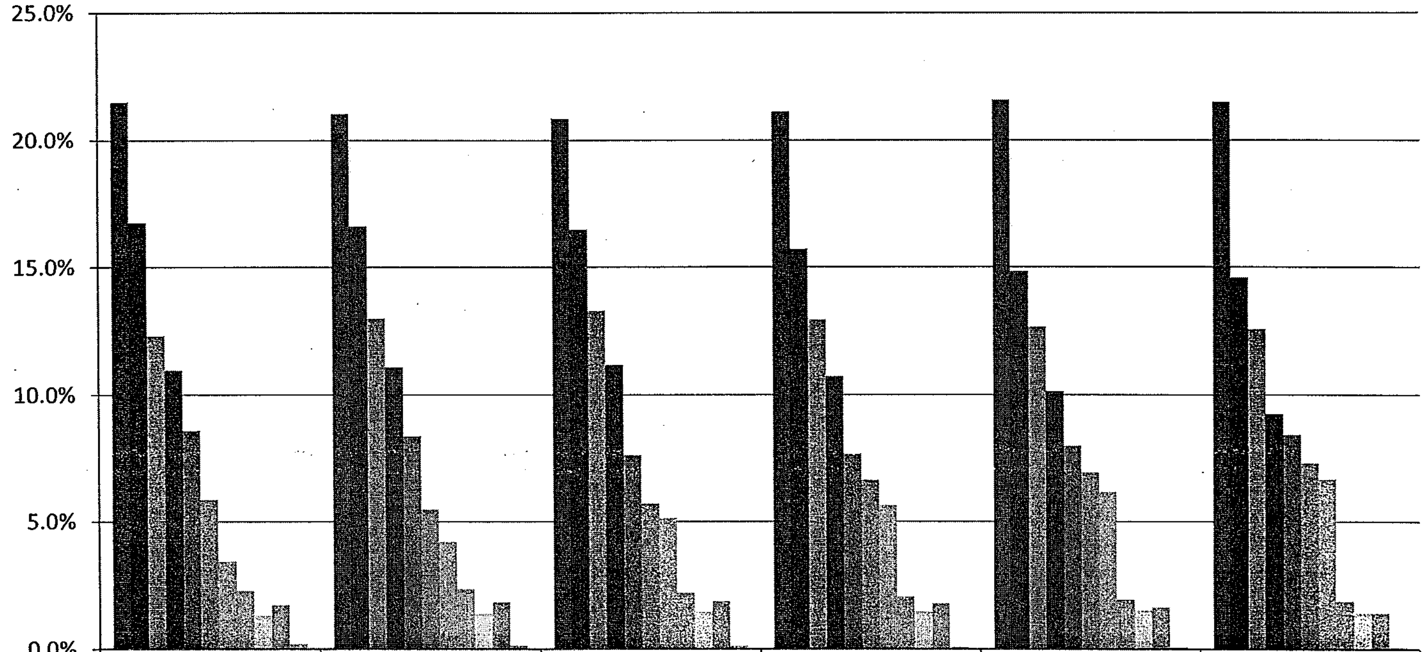
2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
1	176	STATE FARM GRP	281,845,543	STATE FARM FIRE & CAS CO	281,845,543
2	8	ALLSTATE INS GRP	191,470,587	ALLSTATE INS CO	132,820,628
	8			ALLSTATE PROP & CAS INS CO	24,278,818
	8			ENCOMPASS HOME & AUTO INS CO	14,604,942
	8			ENCOMPASS INS CO OF AMER	11,966,999
	8			ENCOMPASS IND CO	6,813,221
	8			ALLSTATE IND CO	985,979
3	3548	TRAVELERS GRP	165,145,509	STANDARD FIRE INS CO	123,524,391
	3548			TRAVELERS HOME & MARINE INS CO	35,762,135
	3548			TRAVELERS IND CO OF AMER	4,276,341
	3548			TRAVELERS COMMERCIAL INS CO	1,582,642
4	140	NATIONWIDE CORP GRP	121,376,367	NATIONWIDE MUT FIRE INS CO	66,253,118
	140			NATIONWIDE PROP & CAS INS CO	34,699,365
	140			NATIONWIDE MUT INS CO	19,793,611
	140			ALLIED PROP & CAS INS CO	630,273
5	213	ERIE INS GRP	110,645,425	ERIE INS EXCH	110,645,425
6	200	UNITED SERV AUTOMOBILE ASSN GRP	95,745,944	UNITED SERV AUTOMOBILE ASSN	54,537,553
	200			USAA CAS INS CO	32,731,118
	200			USAA GEN IND CO	5,157,314
	200			GARRISON PROP & CAS INS CO	3,319,959

Exhibit 2
List of Insurers in the Top Ten Insurer Groups for Homeowners Insurance for 2011

2011 Rank	2011 Group Code	Insurer Group Name	2011 Group Written Premium	Company Name	2011 Written Premium
7	111	LIBERTY MUT GRP	87,360,750	LIBERTY MUT FIRE INS CO	41,136,104
	111			SAFECO INS CO OF AMER	17,710,260
	111			LIBERTY INS CORP	14,923,848
	111			MONTGOMERY MUT INS CO	6,165,365
	111			WEST AMER INS CO	3,606,203
	111			LM INS CORP	3,094,179
	111			OHIO CAS INS CO	398,699
	111			AMERICAN FIRE & CAS CO	326,092
8	38	CHUBB INC GRP	25,195,202	GREAT NORTHERN INS CO	10,826,830
	38			FEDERAL INS CO	5,407,796
	38			VIGILANT INS CO	5,224,989
	38			PACIFIC IND CO	3,479,154
	38			CHUBB NATL INS CO	256,433
9	91	HARTFORD FIRE & CAS GRP	19,168,127	HARTFORD INS CO OF THE MIDWEST	14,283,723
	91			SENTINEL INS CO LTD	2,635,037
	91			TWIN CITY FIRE INS CO CO	2,124,317
	91			HARTFORD UNDERWRITERS INS CO	87,900
	91			TRUMBULL INS CO	29,330
	91			HARTFORD ACCIDENT & IND CO	5,422
	91			PROPERTY & CAS INS CO OF HARTFORD	3,010
	91			HARTFORD FIRE IN CO	899
	91			HARTFORD CAS INS CO	-1,511
10	761	ALLIANZ INS GRP	18,796,578	AMERICAN INS CO	10,714,327
	761			FIREMANS FUND INS CO	5,584,861
	761			NATIONAL SURETY CORP	2,357,409
	761			ASSOCIATED IND CORP	75,997
	761			AMERICAN AUTOMOBILE INS CO	63,984

Exhibit 2A

Comparison of Market Share of the Top Ten Insurer Groups for Homeowners Insurance and the Joint Insurance Association from 2006 to 2011



	2006	2007	2008	2009	2010	2011
STATE FARM	21.5%	21.0%	20.9%	21.1%	21.6%	21.5%
ALLSTATE INS CO	16.7%	16.6%	16.5%	15.7%	14.8%	14.6%
TRAVELERS	12.3%	13.0%	13.3%	13.0%	12.7%	12.6%
NATIONWIDE	11.0%	11.1%	11.2%	10.7%	10.1%	9.3%
ERIE INS EXCH	8.6%	8.4%	7.6%	7.7%	8.0%	8.4%
USAA	5.8%	5.5%	5.7%	6.6%	6.9%	7.3%
LIBERTY MUTUAL	3.5%	4.2%	5.1%	5.6%	6.2%	6.7%
CHUBB Group	2.3%	2.4%	2.2%	2.1%	2.0%	1.9%
HARTFORD FIRE & CAS GRP	1.3%	1.4%	1.5%	1.5%	1.6%	1.5%
FIREMANS FUND	1.8%	1.9%	1.9%	1.8%	1.7%	1.4%
JIA	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%