

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-K  
March 01, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(FEE REQUIRED)

For the fiscal year ended: December 31, 2012 OR

\_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

No. 36-2678171

(IRS Employer Identification No.)

307 North Michigan Avenue, Chicago, Illinois

(Address of principal executive office)

60601

(Zip Code)

Registrant's telephone number, including area code: 312 346 8100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of Each Exchange on Which Registered

Common Stock/\$1 par value

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes: X/ No:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes: / No: X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: X/ No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: X/No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes: /

No: X

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The aggregate fair value of the registrant's voting Common Stock held by non-affiliates of the registrant (assuming, for purposes of this calculation only, that the registrant's directors and executive officers, the registrant's various employee benefit plans and American Business & Personal Insurance Mutual, Inc. and its subsidiaries are all affiliates of the registrant), based on the closing sale price of the registrant's common stock on June 30, 2012, the last day of the registrant's most recently completed second fiscal quarter, was \$1,961,665,320.

The registrant had 259,490,089 shares of Common Stock outstanding as of January 31, 2013.

Documents incorporated by reference:

The following documents are incorporated by reference into that part of this Form 10-K designated to the right of the document title.

Title	Part
Proxy statement for the 2013 Annual Meeting of Shareholders	III, Items 10, 11, 12, 13 and 14
Exhibits as specified in exhibit index (page 116)	IV, Item 15

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There are 117 pages in this report

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## PART I

### Item 1 - Business

(a) **General Description of Business.** Old Republic International Corporation is a Chicago based holding company engaged in the single business of insurance underwriting. It conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely, its General Insurance Group (property and liability insurance), Title Insurance Group, and the Republic Financial Indemnity Group ("RFIG") (mortgage guaranty ("MI") and consumer credit indemnity ("CCI")) run-off business. References herein to such groups apply to the Company's subsidiaries engaged in these respective segments of business. The results of a small life and accident insurance business are included within the corporate and other caption of this report. "Old Republic" or "the Company" refers to Old Republic International Corporation and its subsidiaries as the context requires.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and on the maintenance of financial soundness in support of its subsidiaries' long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to certain basic insurance risk management principles is stressed, and asset diversification and quality are emphasized. The underwriting principles encompass:

• Disciplined risk selection, evaluation, and pricing to reduce uncertainty and adverse selection;

• Augmenting the predictability of expected outcomes through insurance of the largest number of homogeneous risks as to each type of coverage;

• Reducing the insurance portfolio risk profile through:

• diversification and spread of insured risks; and

• assimilation of uncorrelated asset and liability exposures across economic sectors that tend to offset or counterbalance one another; and

• Effectively managing gross and net limits of liability through appropriate use of reinsurance.

In addition to income arising from Old Republic's basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders' capital. Investment management aims for stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company's ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities.

In light of the above factors, the Company's affairs are necessarily managed for the long-run and without significant regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic's view, such short reporting time frames do not comport well with the long-term nature of much of its business. Management believes that the Company's operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five to ten year intervals. Such extended periods can encompass one or two economic and/or underwriting cycles, and thereby provide appropriate

time frames for such cycles to run their course and for reserved claim costs to be quantified with greater finality and effect.

Effective October 1, 2010, Old Republic acquired PMA Capital Corporation ("PMA"), an insurance holding company with interests in the commercial property and liability insurance field. The consideration transferred of \$247.2 million included the issuance of 17,754,047 Old Republic common shares and the replacement value of PMA stock options. The financial statements and other data in this report include PMA's results of operations for the full years of 2012 and 2011, and the final quarter of 2010. Assets and liabilities are included as of December 31, 2012 and 2011.

In late March of 2012, Old Republic combined its General Insurance Group's Consumer Credit Indemnity ("CCI") division with its Mortgage Guaranty ("MI") business in a renamed Republic Financial Indemnity Group, Inc. Run-off Business segment. The two operations, which offer similar insurance coverages, have been in run-off operating mode since 2008 (CCI) and August 2011 (MI), and are inactive from new business production standpoints. The combination affects the manner in which segmented results are presented. Accordingly, the segmented results in this Annual Report show the combination of these coverages as a single run-off book of business within the Company's 2012 consolidated operations. Prior periods' segmented information for the general insurance and RFIG run-off business segments has therefore been reclassified to provide necessary consistency in period-to-period comparisons of operating results.

The contributions to consolidated net revenues and income before taxes, and the assets and shareholders' equity of each Old Republic segment are set forth in the following table. This information should be read in conjunction with the consolidated financial statements, the notes thereto, and the "Management Analysis of Financial Position and Results of Operations" appearing elsewhere in this report.

## Financial Information Relating to Segments of Business (a)

Net Revenues (b)	(\$ in Millions)		
Years Ended December 31:	2012	2011	2010
General	\$2,699.4	\$2,488.6	\$1,986.9
Title	1,707.1	1,391.8	1,238.8
Corporate & Other - net (c)	68.3	84.8	91.2
Subtotal	4,474.9	3,965.3	3,317.0
RFIG Run-off	447.3	564.6	676.5
Subtotal	4,922.2	4,529.9	3,993.5
Consolidated realized investment gains (losses)	47.8	115.5	109.1
Consolidated	\$4,970.1	\$4,645.5	\$4,102.7
Income (Loss) Before Taxes			
Years Ended December 31:	2012	2011	2010
General	\$261.0	\$353.9	\$316.7
Title	73.8	36.2	9.4
Corporate & Other - net (c)	(2.7)	(14.6)	(2.8)
Subtotal	332.1	375.5	323.2
RFIG Run-off	(508.6)	(727.8)	(404.8)
Subtotal	(176.4)	(352.2)	(81.5)
Consolidated realized investment gains (losses)	47.8	115.5	109.1
Consolidated	\$(128.5)	\$(236.7)	\$27.6
Assets			
As of December 31:	2012	2011	2010
General	\$12,770.2	\$12,384.3	\$12,189.8
Title	1,076.5	956.2	915.0
Corporate & Other - net (c)	328.9	682.2	239.8
Subtotal	14,175.6	14,022.8	13,344.7
RFIG Run-off	2,051.1	2,027.6	2,537.9
Consolidated	\$16,226.8	\$16,050.4	\$15,882.7
Shareholders' Equity			
As of December 31:	2012	2011	2010
General (d)	\$2,992.3	\$2,952.9	\$2,846.8
Title (d)	400.9	323.0	300.6
Corporate & Other - net (c)	259.6	480.2	532.7
Subtotal	3,652.9	3,756.3	3,680.2
RFIG Run-off (d)	(56.6)	16.2	441.1
Consolidated	\$3,596.2	\$3,772.5	\$4,121.4

(a) Reference is made to the table in Note 6 of the Notes to Consolidated Financial Statements, incorporated herein by reference, which shows the contribution of each subcategory to the consolidated net revenues and income or loss before income taxes of Old Republic's insurance industry segments. Certain 2011 and 2010 segment information for General Insurance and RFIG Run-off Business has been reclassified to conform to the 2012 presentation. Such

reclassifications of segmented results have no effect on the basic consolidated financial statements of the Company.

(b) Revenues consist of net premiums, fees, net investment and other income earned. Realized investment gains (losses) are shown in total for all groups combined since the investment portfolio is managed as a whole.

(c) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, a small life and accident insurance operation and consolidation elimination adjustments.

(d) Shareholders' equity excludes intercompany financing arrangements for the following segments: General - \$489.4, \$469.4, and \$334.6 as of December 31, 2012, 2011, and 2010, respectively; Title - \$143.9, as of December 31, 2012 and 2011, and \$150.4 as of December 31, 2010; RFIG Run-off - \$-, \$175.0, and \$150.0 as of December 31, 2012, 2011, and 2010, respectively.

### General Insurance Group

Old Republic's General Insurance segment is best characterized as a commercial lines insurance business with a strong focus on liability insurance coverages. Most of these coverages are provided to businesses, government, and other institutions. The Company does not have a meaningful exposure to personal lines insurance such as homeowners and private automobile coverages, nor does it insure significant amounts of commercial or other real property. In continuance of its commercial lines orientation, Old Republic also focuses on specific sectors of the North American economy, most prominently the transportation (trucking and general aviation), commercial construction, healthcare, education, retail and wholesale, forest products, energy, general manufacturing, and financial services industries. In managing the insurance risks it undertakes, the Company employs various underwriting and loss mitigation techniques such as utilization of policy deductibles, captive insurance risk-sharing arrangements, and retrospective rating and policyholder dividend plans. These underwriting techniques are intended to better correlate premium charges with the ultimate claims experience pertaining to individual or groups of assureds.

Over the years, the General Insurance Group's operations have been developed steadily through a combination of internal growth, the establishment of additional subsidiaries focused on new types of coverages and/or industry sectors, and through several mergers of smaller companies. As a result, this segment has become widely diversified with a business base encompassing the following major coverages:

**Automobile Extended Warranty Insurance (1992):** Coverage is provided to the vehicle owner for certain mechanical or electrical repair or replacement costs after the manufacturer's warranty has expired.

**Aviation (1983):** Insurance policies protect the value of aircraft hulls and afford liability coverage for acts that result in injury, loss of life, and property damage to passengers and others on the ground or in the air. Old Republic's aviation business does not extend to commercial airlines.

**Commercial Automobile Insurance (1930's):** Covers vehicles (mostly trucks) used principally in commercial pursuits. Policies cover damage to insured vehicles and liabilities incurred by an assured for bodily injury and property damage sustained by third parties.

**Commercial Multi-Peril ("CMP")(1920's):** Policies afford liability coverage for claims arising from the acts of owners or employees, and protection for the physical assets of large businesses.

**Financial Indemnity:** Multiple types of specialty coverages, including most prominently the following four, are underwritten by Old Republic within this financial indemnity products classification.

**Errors & Omissions("E&O")/Directors & Officers ("D&O")(1983):** E&O liability policies are written for non-medical professional service providers such as lawyers, architects and consultants, and provides coverage for legal expenses, and indemnity settlements for claims alleging breaches of professional standards. D&O coverage provides for the payment of legal expenses, and indemnity settlements for claims made against the directors and officers of corporations from a variety of sources, most typically shareholders.

**Fidelity (1981):** Bonds cover the exposures of financial institutions and commercial and other enterprises for losses of monies or debt and equity securities due to acts of employee dishonesty.

**Guaranteed Asset Protection ("GAP")(2003):** This insurance covers an automobile loan borrower for the dollar value difference between an insurance company's liability for the total loss (remaining cash value) of an insured vehicle and the amount still owed on an automobile loan.

**Surety (1981):** Bonds are insurance company guarantees of performance by a corporate principal or individual such as for the completion of a building or road project, or payment on various types of contracts.

**General Liability (1920's):** Protects against liability of an assured which stems from carelessness, negligence, or failure to act, and results in property damage or personal injury to others.

**Home Warranty Insurance (1981):** This product provides repair and/or replacement coverage for home systems (e.g. plumbing, heating, and electrical) and designated appliances.

**Inland Marine (1920's):** Coverage pertains to the insurance of property in transit over land and of property which is mobile by nature.

**Travel Accident (1970):** Coverages provided under these policies, some of which are also underwritten by the Company's Canadian life insurance affiliate, cover monetary losses arising from trip delay and cancellation for individual insureds.

Workers' Compensation (1910's): This coverage is purchased by employers to provide insurance for employees' lost wages and medical benefits in the event of work-related injury, disability, or death.

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(Parenthetical dates refer to the year(s) when Old Republic's Companies began underwriting the coverages)  
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Commercial automobile, general liability and workers' compensation insurance are typically produced in tandem for many assureds. For 2012, production of workers' compensation direct insurance premiums accounted for approximately 36.5% of consolidated General Insurance Group direct premiums written, while commercial automobile and general liability direct premium production amounted to approximately 28.5% and 11.2%, respectively, of such consolidated totals.

Approximately 90% of general insurance premiums are produced through independent agency or brokerage channels, while the remaining 10% is obtained through direct production facilities.

#### Title Insurance Group

Old Republic's flagship title insurance company was founded in Minnesota in 1907. The Title Insurance Group's business consists primarily of the issuance of policies to real estate purchasers and investors based upon searches of the public records, which contain information concerning interests in real property. The policies insure against losses arising out of defects, liens and encumbrances affecting the insured title and not excluded or excepted from the coverage of the policy. For the year ended December 31, 2012, approximately 32% of the Company's consolidated title premium and related fee income stemmed from direct operations (which include branch offices of its title insurers and wholly owned agency and service subsidiaries of the Company), while the remaining 68% emanated from independent title agents and underwritten title companies.

There are two basic types of title insurance policies: lenders' policies and owners' policies. Both are issued for a one-time premium. Most mortgages made in the United States are extended by mortgage bankers, savings and commercial banks, state and federal agencies, and life insurance companies. The financial institutions secure title insurance policies to protect their mortgagees' interest in the real property. This protection remains in effect for as long as the mortgagee has an interest in the property. A separate title insurance policy may be issued to the owner of the real estate. An owner's policy of title insurance protects an owner's interest in the title to the property.

The premiums charged for the issuance of title insurance policies vary with the policy amount and the type of policy issued. The premium is collected in full when the real estate transaction is closed, there being no recurring fee thereafter. In many areas, premiums charged on subsequent policies on the same property may be reduced depending generally upon the time elapsed between issuance of the previous policies and the nature of the transactions for which the policies are issued. Most of the charge to the customer relates to title services rendered in conjunction with the issuance of a policy rather than to the possibility of loss due to risks insured against. Accordingly, the cost of service performed by a title insurer relates for the most part to the prevention of loss rather than to the assumption of the risk of loss. Claim losses that do occur result primarily from title search and examination mistakes, fraud, forgery, incapacity, missing heirs and escrow processing errors.

In connection with its title insurance operations, Old Republic also provides escrow closing and construction disbursement services, as well as real estate information products, national default management services, and services pertaining to real estate transfers and loan transactions.

#### Republic Financial Indemnity Group (RFIG) Run-off Business

Private mortgage insurance protects mortgage lenders and investors from default related losses on residential mortgage loans made primarily to homebuyers who make down payments of less than 20% of the home's purchase price. The mortgage guaranty operation insures only first mortgage loans, primarily on residential properties incorporating one-to-four family dwelling units. Old Republic's mortgage guaranty business was started in 1973.

There are two principal types of private mortgage insurance coverage: "primary" and "pool". Primary mortgage insurance provides mortgage default protection on individual loans and covers a stated percentage of the unpaid loan

principal, delinquent interest, and certain expenses associated with the default and subsequent foreclosure. In lieu of paying the stated coverage percentage, the Company may pay the entire claim amount, take title to the mortgaged property, and subsequently sell the property to mitigate its loss. Pool insurance, which is written on a group of loans in negotiated transactions, provides coverage that ranges up to 100% of the net loss on each individual loan included in the pool, subject to provisions regarding deductibles, caps on individual exposures, and aggregate stop loss provisions which limit aggregate losses to a specified percentage of the total original balances of all loans in the pool.

Traditional primary insurance was issued on an individual loan basis to mortgage bankers, brokers, commercial banks and savings institutions through a network of Company-managed underwriting sites located throughout the country. Traditional primary loans were individually reviewed (except for loans insured under delegated approval programs) and priced according to filed premium rates. In underwriting traditional primary business, the Company generally adhered to the underwriting guidelines published by Fannie Mae or Freddie Mac, purchasers of many of the loans the Company insures. Delegated underwriting programs allowed approved lenders to commit the Company to insure loans provided they adhere to predetermined underwriting guidelines.

Bulk and other insurance was issued on groups of loans to mortgage banking customers through a centralized risk assessment and underwriting department. These groups of loans were priced in the aggregate, on a bid or negotiated basis. Coverage for insurance issued in this manner was provided through primary insurance policies (loan level coverage) or pool insurance policies (aggregate coverage). The Company considers transactions designated as bulk insurance to be exposed to higher risk (as determined by characteristics such as origination channel, loan amount, credit quality, and extent of loan documentation) than those designated as other insurance.

Before insuring any loans, the Company issued to each approved customer a master policy outlining the terms and conditions under which coverage will be provided. Primary business was then executed via the issuance of a commitment/certificate for each loan submitted and approved for insurance. In the case of business providing pool coverage, a separate pool insurance policy was issued covering the particular loans applicable to each transaction.

As to all types of mortgage insurance products, the amount of premium charge depended on various underwriting criteria such as loan-to-value ratios, the level of coverage being provided, the borrower's credit history, the type of loan instrument (whether fixed rate/fixed payment or an adjustable rate/adjustable payment), documentation type, and whether or not the insured property is categorized as an investment or owner occupied property. Coverage is non-cancelable by the Company (except in the case of non-payment of premium or certain master policy violations) and premiums are paid under single, annual, or monthly payment plans. Single premiums are paid at the inception of coverage and provide coverage for the entire policy term. Annual and monthly premiums are renewable on their anniversary dates with the premium charge determined on the basis of the original or outstanding loan amount. The majority of the Company's direct premiums are written under monthly premium plans. Premiums may be paid by borrowers as part of their monthly mortgage payment and passed through to the Company by the servicer of the loan or they may be paid directly by the originator of, or investor in the mortgage loan.

As reported in earlier periods, the Company's flagship mortgage guaranty insurance carrier, Republic Mortgage Insurance Company ("RMIC"), had been operating pursuant to a waiver of minimum state regulatory capital requirements since late 2009. This waiver expired on August 31, 2011 and, as a consequence, the underwriting of new policies ceased and the existing book of business was placed in run-off operating mode.

During 2012 the North Carolina Department of Insurance ("NCDOI"), the flagship insurer's main regulator, issued several orders the ultimate effects of which were:

- To place RMIC and its affiliate, Republic Mortgage Insurance Company of North Carolina ("RMICNC") under NCDOI supervision;
- To approve a Corrective Plan submitted by RMIC pursuant to which all settled claims are to be paid in cash for 60% of the settled amount, with the remaining 40% retained in claim reserves as a Deferred Payment Obligation ("DPO") until a future payment of all or a portion of this 40% is approved by the NCDOI; and
- To execute the DPO-based run-off plan under Old Republic's ownership and NCDOI supervision of RMIC and RMICNC to effect a most economically sound realization of ultimate benefits to policyholders during a sufficiently long future period.

RMIC's evaluation of the potential long-term performance of the run-off book of business is based on various modeling techniques. Of necessity the resulting models take into account actual premium and paid claim experience of prior periods, together with a large number of assumptions and judgments about future outcomes that are highly sensitive to a wide range of estimates. Many of these estimates and underlying assumptions relate to matters over which the Company has no control, including: 1) The conflicted interests, as well as the varying mortgage servicing and foreclosure practices of a large number of insured lending institutions; 2) General economic and industry-specific trends and events; and 3) The evolving or future social and economic policies of the U.S. Government vis-à-vis such critical sectors as the banking, mortgage lending, and housing industries, as well as its policies for resolving the insolvencies and assigning a possible future role to Fannie Mae and Freddie Mac. These matters notwithstanding, RMIC's ten year standard model of forecasted results extending through 2022 continues to reflect ultimate profitability for the book of business.

The indicated positive outcome of the ten year standard model notwithstanding, it is more likely than not that MI operating results for 2013 and 2014 will be negative. As long as the run-off under NCDOI supervision remains in place, however, the statutory DPO accounting treatment should mitigate the adverse effect of operating losses on the

statutory capital balance. In these circumstances, RMIC's and RMICNC's statutory solvency would be retained and the risk of a regulatory receivership action would be averted. In management's opinion, the DPO Plan under NCDOI supervision should be continued for a sufficiently long period of time to achieve the objectives contemplated by the above referenced NCDOI orders.

In light of all the above, the mortgage guaranty run-off will devolve within constraints of Old Republic's currently committed capital resources. As of December 31, 2012, the total statutory capital, inclusive of accumulated DPO reserve funds of \$299.5 million held in RFIG's mortgage insurance subsidiaries was approximately \$132.8 million. As of the same date, RFIG's consolidated GAAP capitalization amounted to (\$56.6) million (or a negative capital contribution of approximately 22 cents per Old Republic common share). Based on the above-noted loss expectations for 2013 and 2014 it is most likely that the RFIG consolidated GAAP capital account will reflect a continuing and increasingly negative balance. Moreover, Old Republic will be required to recognize RFIG's continuing net losses in its consolidated GAAP financial statements. This GAAP financial reporting treatment will not, however, diminish the Old Republic shareholders' real economic interests in the overall enterprise. Nor will this treatment affect the liquidity of the Old Republic parent holding company or that of its separately capitalized and organized insurance companies and their individual abilities to meet their respective obligations.

Consumer credit indemnity ("CCI") policies provide limited indemnity coverage to lenders and other financial intermediaries. The coverage is for the risk of non-payment of loan balances by individual buyers and borrowers. Claim costs are typically affected by unemployment, bankruptcy, and other issues leading to failures to pay. During 2008, the Company ceased the underwriting of new policies and the existing book of business was placed in run-off operating mode.

### Corporate and Other Operations

Corporate and other operations include the accounts of a small life and accident insurance business as well as those of the parent holding company and several minor corporate services subsidiaries that perform investment management, payroll, administrative and minor marketing services. The life and accident business registered net premium revenues of \$58.9 million, \$74.9 million, and \$81.4 million in 2012, 2011 and 2010, respectively. This business is conducted in both the United States and Canada and consists mostly of limited product offerings sold through financial intermediaries such as automobile dealers, travel agents, and marketing channels that are also utilized in some of Old Republic's general insurance operations. Production of term life insurance, accounting for net premiums earned of \$13.3 million, \$15.1 million, and \$17.0 million in 2012, 2011 and 2010, respectively, was terminated and placed in run off as of year end 2004.

## Consolidated Underwriting Statistics

The following table reflects underwriting statistics covering premiums and related loss, expense, and policyholders' dividend ratios for the major coverages underwritten in the Company's insurance segments.

	(\$ in Millions)			
Years Ended December 31:	2012	2011	2010	
General Insurance Group:				
Overall Experience: (d)				
Net Premiums Earned	\$2,324.4	\$2,109.4	\$1,694.2	
Benefits and Claim Ratio	73.0	% 69.2	% 67.8	%
Expense Ratio	25.7	25.2	26.9	
Composite Ratio	98.7	% 94.4	% 94.7	%
Experience by Major Coverages:				
Commercial Automobile (Principally Trucking):				
Net Premiums Earned	\$767.0	\$709.0	\$676.3	
Benefits and Claim Ratio	75.3	% 71.9	% 73.0	%
Workers' Compensation:				
Net Premiums Earned	\$924.9	\$808.2	\$447.9	
Benefits and Claim Ratio	78.6	% 72.3	% 70.7	%
General Liability:				
Net Premiums Earned	\$145.2	\$125.0	\$113.7	
Benefits and Claim Ratio	63.8	% 64.6	% 64.6	%
Three Above Coverages Combined:				
Net Premiums Earned	\$1,837.2	\$1,642.4	\$1,237.9	
Benefits and Claim Ratio	76.1	% 71.6	% 71.5	%
Financial Indemnity: (a)(d)				
Net Premiums Earned	\$97.2	\$104.4	\$111.9	
Benefits and Claim Ratio	29.6	% 39.2	% 36.7	%
Inland Marine and Commercial Multi-Peril:				
Net Premiums Earned	\$177.2	\$163.9	\$158.3	
Benefits and Claim Ratio	71.6	% 70.4	% 62.8	%
Home and Automobile Warranty:				
Net Premiums Earned	\$161.1	\$150.7	\$146.8	
Benefits and Claim Ratio	68.8	% 66.3	% 71.5	%
Other Coverages: (b)				
Net Premiums Earned	\$54.6	\$49.5	\$35.7	
Benefits and Claim Ratio	56.1	% 52.1	% 48.9	%
Title Insurance Group: (c)				
Net Premiums Earned	\$1,250.2	\$1,007.9	\$863.0	

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Combined Net Premiums & Fees Earned	\$1,677.4	\$1,362.4	\$1,211.0	
Claim Ratio	7.2	% 7.8	% 8.0	%
Expense Ratio	89.6	91.2	93.0	
Composite Ratio	96.8	% 99.0	% 101.0	%
RFIG Run-off Business: (d)				
Net Premiums Earned	\$410.5	\$503.2	\$586.8	
Claim Ratio	221.8	% 230.5	% 169.0	%
Expense Ratio	10.4	22.1	13.3	
Composite Ratio	232.2	% 252.6	% 182.3	%
All Coverages Consolidated:				
Net Premiums & Fees Earned	\$4,471.0	\$4,050.1	\$3,573.5	
Benefits and Claim Ratio	61.9	% 68.3	% 63.8	%
Expense Ratio	48.5	47.5	47.6	
Composite Ratio	110.4	% 115.8	% 111.4	%

Any necessary reclassifications of prior years' data are reflected in the above table to conform to current presentation, including the 2012 reclassification of the CCI coverage from the General Insurance segment to RFIG Run-off.

(a) Consists principally of fidelity, surety, executive indemnity (directors & officers and errors & omissions), and guaranteed asset protection (GAP) coverages.

(b) Consists principally of aviation and travel accident coverages.

(c) Title claim, expense, and composite ratios are calculated on the basis of combined net premiums and fees earned.  
 (d) Consumer credit indemnity coverages are reported within the RFIG Run-off segment and have been excluded from the General Insurance Group for all periods presented to conform with segment classifications adopted in 2012.

The effect of the reclassification of the CCI coverage from the General Insurance Group's overall and financial indemnity underwriting statistics to the RFIG Run-off Business were as follows:

	(\$ in Millions)		
Years Ended December 31:	2012	2011	2010
General insurance overall experience:			
Increase (decrease) in net premiums earned	\$(42.4 )	\$(58.3 )	\$(87.9 )
Percentage point increase (decrease) in claim ratio	(3.4 )%	(2.9 )%	(9.3 )%
Percentage point increase (decrease) in expense ratio	.2	.4	1.0
Percentage point increase (decrease) in composite ratio	(3.2 )%	(2.5 )%	(8.3 )%
Financial Indemnity coverages:			
Increase (decrease) in net premiums earned	\$(42.4 )	\$(58.3 )	\$(87.9 )
Percentage point increase (decrease) in claim ratio	(71.8 )%	(49.2 )%	(96.6 )%
RFIG Run-off Business:			
Increase (decrease) in net premiums earned	\$42.4	\$58.3	\$87.9
Percentage point increase (decrease) in claim ratio	5.1 %	(7.1 )%	15.4 %
Percentage point increase (decrease) in expense ratio	—	(1.8 )	(1.1 )
Percentage point increase (decrease) in composite ratio	5.1 %	(8.9 )%	14.3 %

#### Net Premiums Earned

General insurance premiums reflect favorable trends for workers' compensation and liability insurance lines within the construction, trucking, and large account risk management business which were mainly responsible for premium growth throughout 2012. Moderate rate improvements garnered in the past twenty-four months or so, and the strengthening though slow pace of the U.S. economic activity were major underlying factors in this regard. Premiums increased in 2011 by \$415.2 largely reflecting the addition of a full year of PMA premiums. The Company believes that the combination of ongoing recessionary economic conditions and a generally soft pricing environment in the commercial insurance arena has generally constrained premium growth despite premium rates having strengthened gradually and to varying degrees in certain parts of the Company's general insurance business. 2010 premium volume reflects the inclusion of \$103.7 million contributed by the PMA merger in the fourth quarter.

Title insurance premiums and fees increased in each of the past three years mostly due to market share gains emanating from title industry dislocations and consolidation during the past four years, and greater levels of refinancing activity in more recent quarters.

RFIG Run-off earned premium reflected a further decline throughout 2012 due to the gradual depletion of a book of business in run-off operating mode together with the termination of new business production on August 31, 2011 (MI) and 2008 (CCI). Other adverse factors included the continuation of elevated levels of premium refunds related to claim rescissions and the termination of certain mortgage guaranty pool insurance contracts in 2010. Moreover, mortgage guaranty new business volume prior to August, 2011 was weakened by a downturn in overall mortgage originations, lower industry-wide penetration of the nation's mortgage market, and the continuing effects of more selective underwriting guidelines in place since late 2007. Largely non-recurring mortgage guaranty captive reinsurance commutations contributed \$13.6 million of additional premiums covering future losses during 2010. No similarly significant transactions occurred during 2012 or 2011.



## Claim Ratios

Variations in claim ratios are typically caused by changes in the frequency and severity of claims incurred, changes in premium rates and the level of premium refunds, and periodic changes in claim and claim expense reserve estimates resulting from ongoing reevaluations of reported and incurred but not reported claims and claim expenses. As demonstrated in the above table, the Company can therefore experience period-to-period volatility in the underwriting results posted for individual coverages. In light of Old Republic's basic underwriting focus in managing its business, a long-term objective has been to dampen this volatility by diversifying the coverages it offers and the industries it serves.

The claim ratios include loss adjustment expenses where appropriate. Policyholders' dividends, which apply principally to workers' compensation insurance, are a reflection of changes in loss experience for individual or groups of policies, rather than overall results, and should be viewed in conjunction with loss ratio trends.

The overall general insurance claim ratio shows an increase for 2012 as higher loss costs for the aggregated commercial automobile (trucking), general liability, and workers' compensation coverages were mostly responsible for this uptrend, though workers' compensation produced the greatest adverse impact. 2011 and 2010 claim ratios reflect reasonably consistent trends. To a large extent, this major cost factor reflects pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. Changes in

commercial automobile claim ratios are primarily due to fluctuations in claim frequencies. Loss ratios for workers' compensation and liability insurance may reflect greater variability due to chance events in any one year, changes in loss costs emanating from participation in involuntary markets (i.e. insurance assigned risk pools and associations in which participation is basically mandatory), and added provisions for loss costs not recoverable from assuming reinsurers which may experience financial difficulties from time to time. Additionally, workers' compensation claim costs in particular are affected by a variety of underwriting techniques such as the use of captive reinsurance retentions, retrospective premium plans, and self-insured or deductible insurance programs that are intended to mitigate claim costs over time. Claim ratios for a relatively small book of general liability coverages tend to be highly volatile year to year due to the impact of changes in claim emergence and severity of legacy asbestos and environmental claims exposures.

The Company generally underwrites concurrently workers' compensation, commercial automobile (liability and physical damage), and general liability insurance coverages for a large number of customers. Given this concurrent underwriting approach, an evaluation of trends in premiums, claim and dividend ratios for these individual coverages is more appropriately considered in the aggregate.

Title insurance claim ratios have remained in the single digits for a number of years due to a continuation of favorable trends in claims frequency and severity for business underwritten since 1992 in particular. These ratios moderated in the two most recent years and are trending towards more historical levels due to the gradual stabilization of the housing and related mortgage lending industries.

RFIG Run-off - mortgage guaranty claim ratios have remained at high levels in recent periods. These ratios have risen principally as a result of higher reserve provisions and paid losses. Greater reserve provisions have resulted from higher levels of reported delinquencies emanating from the downturn in the national economy, widespread stress in housing and mortgage finance markets, and persistently high levels of unemployment. Trends in expected and actual claim frequency and severity have been impacted to varying degrees by several factors including, but not limited to, significant declines in home prices which limit a troubled borrower's ability to sell the mortgaged property in an amount sufficient to satisfy the remaining debt obligation; more restrictive mortgage lending standards which limit a borrower's ability to refinance the loan; increases in housing supply relative to recent demand; historically high levels of coverage rescissions and claim denials as a result of material misrepresentation in key underwriting information or non-compliance with prescribed underwriting guidelines; and changes in claim settlement costs. The latter are influenced by the amount of unpaid principal outstanding on delinquent loans as well as the rising expenses of settling claims due to higher investigation costs, legal fees, and accumulated interest expenses.

2012 claim costs were lower as a continuing downtrend in newly reported cases, relatively stable cure rates, and lower paid claim levels more than offset reduced provisions for claim rescissions or denials, and assumptions of greater defaults headed to foreclosure. Recurring claim costs for 2011 increased in comparison with 2010. While newly reported defaults continued in a downtrend, other offsetting factors led to these higher costs. The combination of higher claim payments and reduced levels of actual and estimated claim rescissions or denials on new and previously reported defaults is most accountable for the upward pressure on 2011 incurred claim costs. Captive reinsurance and pool insurance contract terminations had the effect of lowering the 2010 mortgage guaranty claim ratio from 168.6% to 153.6%.

2012 CCI operating performance was impacted by much greater claim costs. Lower incurred claims were experienced in this line in 2011 whereas 2010 reflected higher loss payment trends and increased levels of claim verification and resolution activity.

The consolidated claim, expense, and composite ratios reflect all the above factors and the changing period-to-period contributions of each segment to consolidated results.

### General Insurance Claim Reserves

The Company's property and liability insurance subsidiaries establish claim reserves which consist of estimates to settle: a) reported claims; b) claims which have been incurred as of each balance sheet date but have not as yet been reported ("IBNR") to the insurance subsidiaries; and c) the direct costs, (fees and costs which are allocable to individual claims) and indirect costs (such as salaries and rent applicable to the overall management of claim departments) to administer known and IBNR claims. Such claim reserves, except as to classification in the Consolidated Balance Sheets as to gross and reinsured portions and purchase accounting adjustments, are reported for financial and regulatory reporting purposes at amounts that are substantially the same.

The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors. These factors principally include past experience applicable to the anticipated costs of various types of claims, continually evolving and changing legal theories emanating from the judicial system, recurring accounting, statistical, and actuarial studies, the professional experience and expertise of the Company's claim departments' personnel or attorneys and independent claim adjusters, ongoing changes in claim frequency or severity patterns such as those caused by natural disasters, illnesses, accidents, work-related injuries, and changes in general and industry-specific economic conditions. Consequently, the reserves established are a reflection of the opinions of a large number of persons, of the application and interpretation of historical precedent and trends, of expectations as to future developments, and of management's judgment in interpreting all such factors. At any point in time, the Company is exposed to possibly higher or lower than anticipated claim costs due to all of these factors, and to the evolution, interpretation, and expansion of tort law, as well as the effects of unexpected jury verdicts.

In establishing claim reserves, the possible increase in future loss settlement costs caused by inflation is considered implicitly, along with the many other factors cited above. Reserves are generally set to provide for the ultimate cost of all claims. With regard to workers' compensation reserves, however, the ultimate cost of long-term disability or pension type claims is discounted to present value based on interest rates ranging from 3.5% to 4.0%. The Company, where applicable, uses only such discounted reserves in evaluating the results of its operations, in pricing its products and settling retrospective and reinsured accounts, in evaluating policy terms and experience, and for other general business purposes. Solely to comply with reporting rules mandated by the Securities and Exchange Commission, however, Old Republic has made statistical studies of applicable workers' compensation reserves to obtain estimates of the amounts by which claim and claim adjustment expense reserves, net of reinsurance, have been discounted. These studies have resulted in estimates of such amounts at \$230.8 million, \$235.1 million and \$231.0 million, as of December 31, 2012, 2011 and 2010, respectively. It should be noted, however, that these differences between discounted and non-discounted (terminal) reserves are fundamentally of an informational nature, and are not indicative of an effect on operating results for any one or series of years for the above noted reasons.

Early in 2001, the Federal Department of Labor revised the Federal Black Lung Program regulations. The revisions basically require a reevaluation of previously settled, denied, or new occupational disease claims in the context of newly devised, more lenient standards when such claims are resubmitted. Following a number of challenges and appeals by the insurance and coal mining industries, the revised regulations were, for the most part, upheld in June, 2002 and are to be applied prospectively. Since the final quarter of 2001, black lung claims filed or refiled pursuant to these revised regulations have increased, though the volume of new claim reports has abated in recent years. In March 2010, federal regulations were revised once again as part of the Patient Protection and Affordability Act that reinstates two provisions that potentially benefit claimants. In response to this most recent legislation and similar to the 2001 change, black lung claims filed or refiled have again increased. The vast majority of claims filed to date against Old Republic pertain to business underwritten through loss sensitive programs that permit the charge of additional or refund of return premiums to wholly or partially offset changes in estimated claim costs, or to business underwritten as a service carrier on behalf of various industry-wide involuntary market (i.e. assigned risk) pools. A much smaller portion pertains to business produced on a traditional risk transfer basis. The Company has established applicable reserves for claims as they have been reported and for claims not as yet reported on the basis of its historical experience as well as assumptions relative to the effect of the revised regulations. Inasmuch as a variety of challenges are likely as the revised regulations are implemented through the actual claim settlement process, the potential impact on reserves, gross and net of reinsurance or retrospective premium adjustments, resulting from such regulations cannot be estimated with reasonable certainty.

Old Republic's reserve estimates also include provisions for indemnity and settlement costs for various asbestosis and environmental impairment ("A&E") claims that have been filed in the normal course of business against a number of its insurance subsidiaries. Many such claims relate to policies issued prior to 1985, including many issued during a short period between 1981 and 1982 pursuant to an agency agreement canceled in 1982. Over the years, the Company's property and liability insurance subsidiaries have typically issued general liability insurance policies with face amounts ranging between \$1.0 million and \$2.0 million and rarely exceeding \$10.0 million. Such policies have, in turn, been subject to reinsurance cessions which have typically reduced the subsidiaries' net retentions to \$.5 million or less as to each claim. Old Repu