

OLD REPUBLIC INTERNATIONAL CORP
Form 10-K
February 27, 2009

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

FORM 10-K

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, 2008 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:

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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. "

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes: /
No:

The aggregate market 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, 2008, the last day of the registrant's most recently completed second fiscal quarter, was \$2,564,894,535.

The registrant had 235,036,335 shares of Common Stock outstanding as of January 30, 2009.

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 2009 Annual Meeting of Shareholders	III, Items 10, 11, 12, 13 and 14
Exhibits as specified in exhibit index (page 93)	IV, Item 15

There are 94 pages in this report

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, it's General (property and liability insurance), Mortgage Guaranty, and Title Insurance Groups. 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 health 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 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 managed without 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.

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.

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Financial Information Relating to Segments of Business (a)

Net Revenues (b)		(\$ in Millions)		
Years Ended December 31:		2008	2007	2006
General		\$ 2,255.9	\$ 2,438.0	\$ 2,138.7
M o r t g a g e		690.0	608.3	529.9
Guaranty				
Title		681.3	878.5	1,007.3
Corporate & Other – net (c)		132.1	131.4	127.1
Consolidated realized investment gains (losses)		(486.4)	70.3	19.0
C o n s o l i d a t i o n e l i m i n a t i o n		(35.3)	(35.8)	(27.9)
adjustments				
Consolidated		\$ 3,237.7	\$ 4,091.0	\$ 3,794.2

Income (Loss) Before Taxes				
Years Ended December 31:		2008	2007	2006
General		\$ 294.3	\$ 418.0	\$ 401.6
M o r t g a g e		(594.3)	(110.4)	228.4
Guaranty				
Title		(46.3)	(14.7)	31.0
Corporate & Other – net (c)		13.5	15.1	-
Consolidated realized investment gains (losses)		(486.4)	70.3	19.0
Consolidated		\$ (819.2)	\$ 378.4	\$ 680.1

Assets				
As of December 31:		2008	2007	2006
General		\$ 9,482.9	\$ 9,769.9	\$ 9,363.5
M o r t g a g e		2,973.1	2,523.8	2,189.6
Guaranty				
Title		762.4	770.4	772.7
Corporate & Other – net (c)		509.5	437.9	443.4
C o n s o l i d a t i o n e l i m i n a t i o n		(462.0)	(211.5)	(157.0)
adjustments				
Consolidated		\$ 13,266.0	\$ 13,290.6	\$ 12,612.2

Shareholders' Equity				
As of December 31:		2008	2007	2006
General		\$ 2,258.7	\$ 2,536.7	\$ 2,312.8
Mortgage Guaranty		828.0	1,237.7	1,292.0
Title		260.0	334.9	362.3
C o r p o r a t e & O t h e r – n e t		433.7	475.4	439.2
(c)				
C o n s o l i d a t e d e l i m i n a t i o n		(40.2)	(43.2)	(37.3)
adjustments				
Consolidated		\$ 3,740.3	\$ 4,541.6	\$ 4,369.2

- (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.
- (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, and a small life and health insurance operation.

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, 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 five, are underwritten by Old Republic within this financial indemnity products classification.

Consumer Credit Indemnity ("CCI")(1950's): Policies provide limited indemnity to lenders and other financial intermediaries against the risk of non-payment of consumer loan balances by individual buyers and borrowers arising from unemployment, bankruptcy, and other failures to pay.

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 a primary 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 (1920’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.

(Parenthetical dates refer to the year(s) when Old Republic’s Companies began underwriting the coverages)

Commercial automobile, general liability and workers' compensation insurance are typically produced in tandem for many assureds. For 2008, production of commercial automobile direct insurance premiums accounted for approximately 28.5% of consolidated General Insurance Group direct premiums written, while workers' compensation and general liability direct premium production amounted to approximately 19.1% and 13.4%, respectively, of such consolidated totals.

Approximately 83% of general insurance premiums are produced through independent agency or brokerage channels, while the remaining 17% is obtained through direct production facilities.

Mortgage Guaranty Group

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 Group insures only first mortgage loans, primarily on residential properties incorporating one-to-four family dwelling units.

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 is 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 are 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 adheres to the underwriting guidelines published by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") or the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), purchasers of many of the loans the Company insures. Delegated underwriting programs allow approved lenders to commit the Company to insure loans provided they adhere to predetermined underwriting guidelines. In 2008, delegated underwriting approvals accounted for approximately 73% of the Company's new traditional primary risk written.

Bulk and other insurance is issued on groups of loans to mortgage banking customers through a centralized risk assessment and underwriting department. These groups of loans are priced in the aggregate, on a bid or negotiated basis. Coverage for insurance issued in this manner can be 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 loan documentation) than those designated as other insurance.

Before insuring any loans, the Company issues to each approved customer a master policy outlining the terms and conditions under which coverage will be provided. Primary business is 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 is issued covering the particular loans applicable to each transaction.

As to all types of mortgage insurance products, the amount of premium charge depends 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 coverage 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.

Title Insurance Group

The title insurance 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 policy insures 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, 2008, approximately 37% 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 subsidiaries of the Company), while the remaining 63% 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.

Corporate and Other Operations

Corporate and other operations include the accounts of a small life and health 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 Company's small life and health business registered 2008 and 2007 net premium revenues of \$80.1 million and \$77.0 million, 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 \$16.8 million in 2008 and \$16.5 million in 2007, 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 in-surance segments.

	(\$ in Millions)		
	Years Ended December 31,		
	2008	2007	2006
General Insurance Group:			
Overall Experience:			
Net Premiums	\$ 1,989.3	\$ 2,155.1	\$ 1,902.1
Earned			
Claim Ratio	72.2%	67.4%	65.5%
Policyholders' Dividend Benefit	.8	.4	.4
Expense Ratio	24.2	24.1	24.4
Composite Ratio	97.2%	91.9%	90.3%
Experience by Major Coverages:			
Commercial Automobile (Principally Trucking):			
Net Premiums	\$ 694.5	\$ 752.4	\$ 752.4
Earned			
Claim Ratio	75.8%	73.9%	75.3%
Workers' Compensation:			
Net Premiums	\$ 418.4	\$ 505.6	\$ 412.8
Earned			
Claim Ratio	67.2%	69.7%	73.6%
Policyholders' Dividend Benefit	2.2%	1.2%	.9%
General Liability:			
Net Premiums	\$ 150.2	\$ 168.1	\$ 96.2
Earned			
Claim Ratio	63.9%	59.8%	57.2%
Three Above Coverages Combined:			
Net Premiums	\$ 1,263.2	\$ 1,426.2	\$ 1,261.5
Earned			
Claim Ratio	71.5%	70.7%	73.4%
Financial Indemnity: (a)			
	\$ 319.7	\$ 298.0	\$ 209.4

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Net Premiums				
Earned				
Claim Ratio	95.0%	69.6%	40.6%	
Inland Marine and Commercial Multi-Peril:				
Net Premiums	\$ 192.9	\$ 199.3	\$ 203.1	
Earned				
Claim Ratio	58.8%	54.0%	54.0%	
Home and Automobile Warranty:				
Net Premiums	\$ 126.2	\$ 129.8	\$ 133.1	
Earned				
Claim Ratio	61.2%	62.9%	63.8%	
Other Coverages: (b)				
Net Premiums	\$ 89.5	\$ 98.9	\$ 94.0	
Earned				
Claim Ratio	43.6%	46.7%	43.8%	
Mortgage Guaranty Group:				
Net Premiums	\$ 592.5	\$ 518.2	\$ 444.3	
Earned				
Claim Ratio	199.3%	118.8%	42.8%	
Expense Ratio	15.7	17.7	22.5	
Composite Ratio	215.0%	136.5%	65.3%	
Title Insurance Group: (c)				
Net Premiums	\$ 463.1	\$ 638.5	\$ 733.6	
Earned				
Combined Net Premiums & Fees	\$ 656.1	\$ 850.7	\$ 980.0	
Earned				
Claim Ratio	7.0%	6.6%	5.9%	
Expense Ratio	103.6	98.1	93.6	
Composite Ratio	110.6%	104.7%	99.5%	
All Coverages Consolidated:				
Net Premiums & Fees	\$ 3,318.1	\$ 3,601.2	\$ 3,400.5	
Earned				
Claim and Benefit Ratio	81.8%	60.2%	45.3%	
	39.1	41.3	44.7	

Expense Ratio			
Composite Ratio	120.9%	101.5%	90.0%

Any necessary reclassifications of prior year data are reflected in the above table to conform to our current presentation.

(a) Consists principally of fidelity, surety, consumer credit indemnity, 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.

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. The Company can therefore experience period-to-period volatility in the underwriting results for individual coverages as demonstrated in the above table. As a result of the Company's basic underwriting focus in the management of its business, it has attempted to dampen this volatility and thus ensure a higher degree of overall underwriting stability by diversifying the coverages it offers and 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 general insurance claims ratio reflects reasonably consistent trends for all reporting periods. This major cost factor reflects largely pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. General Insurance Group loss ratios for workers' compensation and liability insurance coverages in particular 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 man-datory), and added provisions for loss costs not recoverable from assuming reinsurers which may experience financial difficulties from time to time. The Company generally underwrites concurrently workers' compensation, commercial automobile (liability and physical damage), and general liability insurance coverages for a large number of customers. Accordingly, an evaluation of trends in premiums, claims and dividend ratios for these individual coverages should be considered in the light of such a concurrent underwriting approach. With respect to commercial automobile coverages, higher claims ratios experienced during the past three years are primarily due to greater claim frequency. Better results in workers' compensation in 2008 and 2007 have been due to improved pricing in general as well as stronger growth of business subject to captive reinsurance, retrospective premium, or self-insured deductible programs that are intended to produce lower net loss ratios. The claims ratio for a relatively small book of general liability coverages has tended to be highly volatile, usually rising due to the impact of higher claims emergence and greater than anticipated severity, mostly from legacy asbestos and environmental claims exposures. The higher claim ratio for financial indemnity coverages in 2008 and 2007 was driven principally by greater claim frequencies experienced in Old Republic's consumer credit indemnity ("CCI") coverage. The higher loss experience on Old Republic's CCI product added 4.1 percentage points to the 2008 general insurance overall composite ratio by comparison to an insignificant effect for 2007.

The mortgage guaranty claims ratios have continued to rise in recent periods, principally as a result of higher reserve positions and paid losses. Reserve additions have been increasing as a result of higher levels of reported delinquencies as well as increased expectations as to claim frequencies and severities. Claim severity has trended upward primarily due to loans with larger unpaid principal balances and corresponding risk becoming delinquent along with a lower level of mitigation potential due to housing depreciation trends. Expectations of greater claim frequency are impacted by several factors, including the number of loans entering into default, the outlook for the housing market, tightening lending standards which affect borrowers' ability to refinance troubled loans, the aging of the bulk business, and the overall declining state of the economy.

The title insurance claim ratio has been in the mid single digits in each of the past several years due to favorable trends in claims frequency and severity for business underwritten in the past fifteen years or so. Though still reasonably contained, the increases in claim ratios in 2008 and 2007 are reflective of the continuing downturn in the housing and related mortgage industries.

The consolidated claims, 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, 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.

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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 \$156.8 million, \$148.5 million and \$151.0 million, as of December 31, 2008, 2007 and 2006, 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 anticipated and now final regulations have increased, though the volume of new claim reports has abated in recent years. 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 as yet 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 Republic's exposure to A&E claims cannot, however, be calculated by conventional insurance reserving methods for a variety of reasons, including: a) the absence of statistically valid data inasmuch as such claims typically involve long reporting delays and very often uncertainty as to the number and identity of insureds against whom such claims have arisen or will arise; and b) the litigation history of such or similar claims for insurance industry members which has produced inconsistent court decisions with regard to such questions as to when an alleged loss occurred, which policies provide coverage, how a loss is to be allocated among potentially responsible insureds and/or their insurance carriers, how policy coverage exclusions are to be interpreted, what types of environmental impairment or toxic tort claims are covered, when the insurer's duty to defend is triggered, how policy limits are to be calculated, and whether clean-up costs constitute property damage. In recent times, the Executive Branch and/or the Congress of the United States have proposed or considered changes in the legislation and rules affecting the determination of liability for environmental and asbestosis claims. As of December 31, 2008, however, there is no solid evidence to suggest that possible future changes might mitigate or reduce some or all of these claim exposures. Because of the above issues and uncertainties, estimation of reserves for losses and allocated loss adjustment expenses for A&E claims in particular is much more difficult or impossible to quantify with a high degree

of precision. Accordingly, no representation can be made that the Company's reserves for such claims and related costs will not prove to be overstated or understated in the future. At December 31, 2008, Old Republic's aggregate indemnity and loss adjustment expense reserves specifically identified with A&E exposures amounted to approximately \$172.4 million gross, and \$145.0 million net of reinsurance. Based on average annual claims payments during the five most recent calendar years, such reserves represented 7.3 years (gross) and 9.9 years (net of reinsurance) of average annual claims payments. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. For the five years ended December 31, 2008, incurred A&E claim and related loss settlement costs have averaged 2.4% of average annual General Insurance Group claims and related settlement costs.

Over the years, the subject of property and liability insurance claim reserves has been written about and analyzed extensively by a large number of professionals and regulators. Accordingly, the above discussion summary should, of necessity, be regarded as a basic outline of the subject and not as a definitive presentation. The Company believes that its overall reserving practices have been consistently applied over many years, and that its aggregate reserves have generally resulted in reasonable approximations of the ultimate net costs of claims incurred. However, no representation is made nor is any guaranty given that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates.

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The following table shows the evolving redundancies or deficiencies for reserves established as of December 31, of each of the years 1998 through 2008. In reviewing this tabular data, it should be noted that prior periods' loss payment and development trends may not be repeated in the future due to the large variety of factors influencing the reserving and settlement processes outlined herein above. The reserve redundancies or deficiencies shown for all years are not necessarily indicative of the effect on reported results of any one or series of years since cumulative retrospective premium and commission adjustments employed in various parts of the Company's business may partially offset such effects. The moderately deficient development of reserves at year-ends 1998 to 2002 pertain mostly to claims incurred in prior accident years, generally for business written in the 1980's. (See "Consolidated Underwriting Statistics" above, and "Reserves, Reinsurance, and Retrospective Ad-justments" elsewhere herein).

(\$ in Millions)											
(a) A s o f	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
December 31:											
(b) Liability(1)											
for unpaid											
claim											
and claim											
adjustment											
expenses(2):	\$ 3,222\$	3,175\$	2,924\$	2,414\$	2,182\$	1,964\$	1,802\$	1,678\$	1,661\$	1,699\$	1,742
(c) P a i d											
(cumulative) as											
of (3):											
One year later	- %	26.5%	23.6%	14.9%	25.1%	24.7%	23.5%	23.4%	23.2%	22.2%	22.5%
Two years later	-	-	38.4	30.6	33.5	39.2	38.7	37.4	37.1	36.8	35.7
Three years later	-	-	-	41.7	44.0	44.3	48.4	47.8	46.1	45.9	44.9
Four years later	-	-	-	-	51.0	50.8	51.2	54.1	52.9	52.1	51.0
Five years later	-	-	-	-	-	55.8	55.6	55.3	57.7	57.0	55.6
Six years later	-	-	-	-	-	-	59.5	58.7	57.8	61.0	59.6
Seven years later	-	-	-	-	-	-	-	62.0	60.7	60.5	63.1
Eight years later	-	-	-	-	-	-	-	-	63.7	63.0	62.4
Nine years later	-	-	-	-	-	-	-	-	-	65.8	64.7
Ten years later	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %	67.2%
(d) Liability											
reestimated											
(i.e.,											
cumulative											
payments plus											
reestimated											
e n d i n g											
liability)											
As of (4):											
One year later	- %	97.4%	96.2%	95.2%	97.6%	97.2%	98.6%	99.6%	97.3%	96.1%	96.2%
Two years later	-	-	94.3	92.3	94.8	97.0	98.2	101.3	98.1	94.9	93.3
Three years later	-	-	-	90.4	93.3	95.6	99.7	102.7	100.1	96.5	93.0
Four years later	-	-	-	-	92.2	95.7	100.4	105.8	102.2	98.0	95.1

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Five years later	-	-	-	-	-	95.6	100.6	106.7	105.6	100.7	96.5
Six years later	-	-	-	-	-	-	101.0	107.3	106.9	104.2	99.4
Seven years later	-	-	-	-	-	-	-	107.8	107.5	105.4	103.0
Eight years later	-	-	-	-	-	-	-	-	108.3	106.1	104.1
Nine years later	-	-	-	-	-	-	-	-	-	106.7	104.7
Ten years later	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %	105.3%
(e) Redundancy (deficiency) for each year-end at (a):	- %	2.6%	5.7%	9.6%	7.8%	4.4%	-1.0%	-7.8%	-8.3%	-6.7%	-5.3%
Average redundancy (deficiency) for all year-ends at (a):	1.1%										

(1) Amounts are reported net of reinsurance.

(2) Excluding unallocated loss adjustment expense reserves.

(3) Percent of most recent reestimated liability (line d). Decreases in paid loss percentages may at times reflect the reassumption by the Company of certain previously ceded loss reserves from assuming reinsurers through commutations of then existing reserves.

(4) Percent of beginning liability (line b) for unpaid claims and claim adjustment expenses.

(5) Beginning liability less the most current liability reestimated (line d) as a percent of beginning liability (line b).

The following table shows an analysis of changes in aggregate reserves for the Company's property and liability insurance claims and allocated claim adjustment expenses for each of the years shown:

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