

REPORT OF EXAMINATION
OF THE
OLD REPUBLIC HOME
PROTECTION COMPANY, INC.
AS OF
DECEMBER 31, 2016

Filed March 29, 2018

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San Francisco, California
February 15, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

OLD REPUBLIC HOME PROTECTION COMPANY, INC.

(hereinafter also referred to as the Company) at its home office located at
2 Annabel Lane, San Ramon, California 94583.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause a company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

Effective January 1, 2016, the Company's immediate parent changed from Old Republic General Insurance Group, Inc. (ORGIG) to a new mid-stream holding company, Old Republic Home Protection Management Company (ORHPMC).

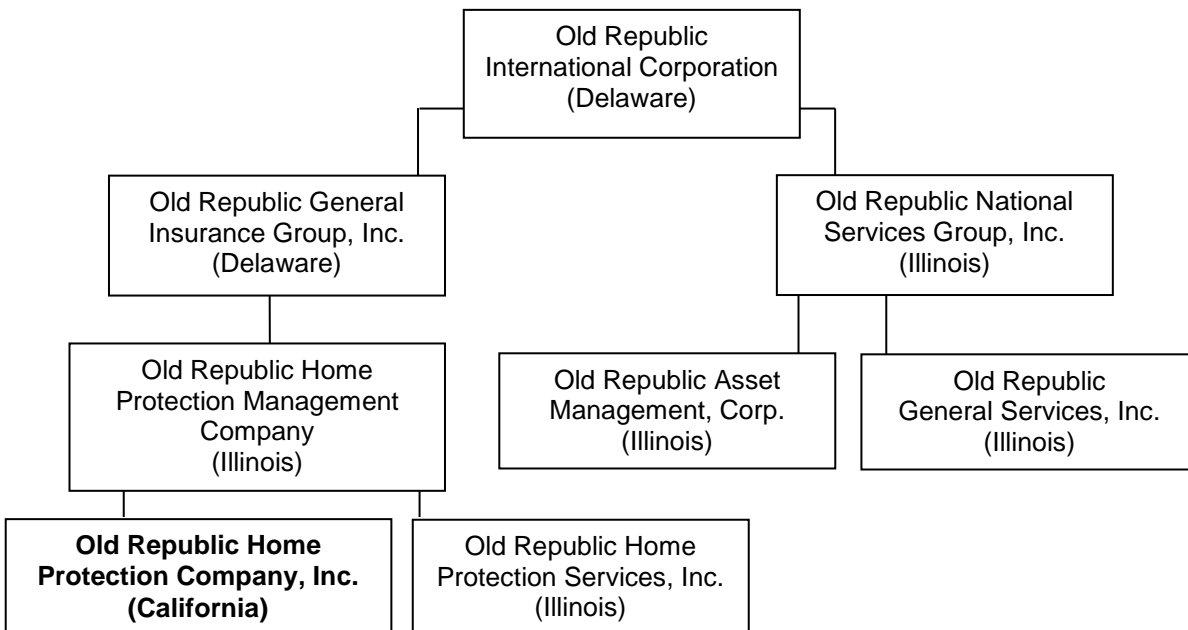
Dividends Paid

The Company paid the following ordinary cash dividends to ORGIG during the examination period:

<u>Year</u>	<u>Amount</u>
2012	\$11,500,000
2013	9,000,000
2014	10,000,000
2015	14,000,000
2016	<u>12,500,000</u>
Total	<u>\$57,000,000</u>

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Old Republic Home Protection Management Company (ORHPMC) and is part of a larger group of companies ultimately controlled by Old Republic International Corporation (ORI). The following abridged organizational chart depicts the relationship of the companies within the holding company system as of December 31, 2016 (all ownership is 100%):



The business and affairs of the Company are overseen by a seven-member board of directors, who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert J. Chapman Minneapolis, Minnesota	Executive Vice President and Chief Information Officer Old Republic National Title Insurance Company
Lori R. De Martini Lafayette, California	President Old Republic Exchange Company
Gwen M. Gallagher Alamo, California	President Old Republic Home Protection Company, Inc.
William T. Gray Winnetka, Illinois	Senior Vice President Old Republic General Insurance Group
Chris G. Lieser Lutz, Florida	Executive Vice President and Chief Financial Officer Old Republic National Title Insurance Company
R. Scott Rager Oak Brook, Illinois	President and Chief Operating Officer Old Republic International Corporation
Aldo C. Zucaro Sarasota, Florida	Chairman and Chief Executive Officer Old Republic International Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Gwen M. Gallagher	President, Secretary, and Treasurer
Lorna H. Mello	Vice President

Management Agreements

Investment Counsel Services Agreement: The Company has an investment counsel agreement with an affiliate, Old Republic Asset Management, Corporation (ORAM). ORAM advises the Company regarding its investment policy, assists in the purchase and sale of securities and monitors the value of invested assets. Fees paid to ORAM are based on the market value of the managed portfolio and varies from one to seven basis points. The agreement was approved by the California Department of Insurance (CDI) on October 18, 2002. The amounts paid by the Company for these investment services during 2012, 2013, 2014, 2015, and 2016 were: \$48,051, \$52,209, \$56,185, \$59,296 and \$61,688, respectively.

Tax Sharing Agreement: The Company has a tax sharing agreement with its ultimate parent, Old Republic International Corporation (ORI), effective with the tax year ending December 31, 2001. ORI is responsible for filing a consolidated tax return for the affiliated group and the tax liability of each participant is calculated as if each entity had filed a separate tax return. The agreement was approved by the CDI on September 2, 2003.

Administrative Services Agreement: The Company has an Administrative Services Agreement with its affiliate, Old Republic General Services, Inc. (ORGS). Under the agreement, ORGS provides the following services: accounting, functional support, computer services, and auditing. The agreement was approved by the CDI on April 9, 2013. The amounts paid by the Company for services during 2012, 2013, 2014, 2015, and 2016 were: \$66,554, \$30,357, \$20,831, \$25,005, and \$57,670, respectively.

Software Maintenance and Development Agreement: Effective January 1, 2016, the Company entered into a software maintenance and development agreement with its affiliate, Old Republic Home Protection Services, Inc. (ORHPS). Under the agreement, ORHPS provides continued software development to all programs and related interfaces.

During the examination, it was noted that the agreement was not submitted to the CDI for prior approval as required by CIC Section 1215.5(b)(4). It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4). The Company submitted the agreement to the CDI on July 31, 2017.

IT Systems Administration and Computer Operations Services Agreement: Effective January 1, 2016, the Company entered into an IT Systems Administration and Computer Operations Services Agreement with its affiliate, ORHPS. Under the agreement, ORHPS provides the following services: licensing, security, availability, data integrity, disaster recovery, capacity, performance, and environment. During the examination, it was noted that the agreement was not submitted to the CDI for prior approval as required by CIC Section 1215.5(b)(4). It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4). The Company submitted the agreement to the CDI on July 31, 2017.

The combined amounts paid by the Company to ORHPS for services under the Software Maintenance and Development Agreement and the IT Systems Administration and Computer Operations Services Agreement during 2016 were \$1,600,000.

TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and is licensed in forty-six states (all except Alaska, Massachusetts, New Hampshire, and North Dakota) and the District of Columbia as of December 31, 2016. Direct contract fees written for 2016 were \$214,873,177. Of this amount, \$64.8 million (30.1%) was written in California, \$27.7 million (12.9%) in Arizona, and \$27.4 million (12.8%) in Texas. In 2016, new contracts on re-sale homes accounted for 58% of the total contract fees written and renewal contracts made up the remaining 42%. The Company's home office is located in San Ramon, California where the following services are performed: administrative, accounting, application processing, and claims. The Company also has an outsourced application processing and claims center in Bartlesville, Oklahoma.

The standard home warranty plan offers coverage on heating system/ductwork, plumbing, electrical systems, garage door opener and central vacuums as well as appliances including: dishwasher, trash compactor, kitchen exhaust fan, oven, range, cooktop and built-in microwave oven and specialty items such as built-in bathtub, whirlpool, and central vacuum systems. Optional coverage varies by state and can include: air conditioner, swimming pool, spa equipment, solar pool, solar hot water system, roof (limited), washer/dryer, kitchen refrigerator, additional refrigeration units, ornamental fountain motor/pump, water softener/reverse osmosis water filtration system, well pump, booster pump, enhanced slab leak, enhanced pipe leak, septic tank pumping, and septic system/sewage ejector pump.

The Company employs seven sales vice presidents and eighty sales representatives that market the home warranty contracts through real estate agents.

REINSURANCE

The Company does not utilize reinsurance.

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 735 requires that a designated officer of the Company inform the board of directors regarding the receipt of the report of examination and that the fact that such officer did so inform the members present be entered in the minutes of such meeting. The Company was not in compliance with CIC Section 735 because no entry was made in the meeting minutes of the board of directors noting that the members were informed about the receipt of the prior report of examination. It is recommended that the Company institute procedures to ensure compliance with CIC Section 735.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Contract Holders from December 31, 2011
through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

<u>Assets</u>		<u>Notes</u>
Bonds	\$ 77,740,557	
Common stocks	55,492,806	
Cash, cash equivalents and short-term investments	3,374,202	
Home protection contract fees receivable	12,073,185	
Receivable from parent, subsidiaries and affiliates	2,636,000	
Federal income tax recoverable	3,083,796	
Interest, dividends and real estate income due and accrued	<u>839,758</u>	
 Total assets	 <u>\$ 155,240,304</u>	
 <u>Liabilities, Surplus and Other Funds</u>		
Claims adjusted & unpaid or in process of adjustment	\$ 7,587,360	(1)
Claims service expenses	1,240,355	(1)
Other expenses	3,573,719	
Taxes, licenses and fees	2,455,275	
Unearned home protection contract fees	86,367,482	
Payable to parent, subsidiaries and affiliates	145,090	
All other liabilities:		
Premiums received in advance	2,224,836	
Other accounts payable	260,908	
Federal income tax-current	<u>311,186</u>	
 Total liabilities	 104,166,211	
 Common capital stock	 \$ 160,518	
Gross paid-in and contributed surplus	5,459,900	
Unassigned funds (surplus)	38,062,132	
Unrealized gains on investments, net of tax	<u>7,391,543</u>	
Surplus as regards contract holders	<u>51,074,093</u>	
 Total liabilities, surplus and other funds	 <u>\$ 155,240,304</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 209,654,177
Deductions:		
Claims incurred	\$ 134,667,749	
Claims service expense incurred	22,608,304	
Other underwriting expenses incurred	<u>39,244,226</u>	
Total underwriting deductions		<u>196,520,279</u>
Net underwriting gain		13,133,898

Investment Income

Net investment income earned	\$ 4,674,153	
Net realized capital gain	<u>1,530,970</u>	
Net investment gain		6,205,123

Other Income

Installment payment fee handling	\$ <u>1,346,010</u>	
Total other income		<u>1,346,010</u>
Net income before federal income taxes		20,685,031
Federal income taxes incurred		<u>7,440,266</u>
Net income		<u>\$ 13,244,765</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2015		\$ 44,334,361
Net income	\$ 13,244,765	
Change in nonadmitted assets	(187,950)	
Dividends to stockholders	(12,500,000)	
Change in net deferred taxes	1,421,142	
Other gains and losses in surplus:		
Change in unrealized gains or losses on investments, net of tax	<u>4,761,775</u>	
Change in surplus as regards contract holders, as of statement due		<u>6,739,732</u>
Surplus as regards contract holders, December 31, 2016		<u>\$ 51,074,093</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2011 through December 31, 2016

Surplus as regards contract holders, December 31, 2011			\$ 38,655,826
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 61,027,287	\$	
Change in net deferred taxes	2,690,334		
Change in unrealized gains/losses	7,035,913		
Dividends to stockholder		57,000,000	
Change in nonadmitted assets	<u> </u>	<u>1,335,267</u>	
Total gains and losses	<u>\$ 70,753,534</u>	<u>\$ 58,335,267</u>	
Net increase in surplus as regards contract holders			<u>12,418,267</u>
Surplus as regards contract holders, December 31, 2016			<u>\$ 51,074,093</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in Process of Adjustment and Claims Service Expenses

The Company engaged KPMG, LLC Actuarial Services to evaluate the Company's Claims Adjusted and Unpaid or in Process of Adjustment and Claims Service Expenses as of December 31, 2016. Based on the review of the analysis, the reserve for the above captioned accounts appears reasonable and has been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Software Maintenance and Development Agreement – (Page 5): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 1215.5(b)(4).

Management Agreements – IT Systems Administration and Computer Operations Services Agreement – (Page 6): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

Accounts and Records (Page 7): It is recommended that the Company institute procedures to ensure compliance with California Insurance Code Section 735.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/ _____

Jennifer Whitehurst, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/ _____

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California