

REPORT OF EXAMINATION  
OF THE  
OLD REPUBLIC HOME PROTECTION COMPANY, INC.  
AS OF  
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to be 'D. DeLoe', is positioned above the filing date.

Filed on May 26, 2023

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Oakland, California  
May 17, 2023

Honorable Ricardo Lara  
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). The Company's statutory home office is 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, 2016. This examination covered the period from January 1, 2017 through December 31, 2021.

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. The examination also includes identifying and evaluating significant risks that could cause an insurer'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 includes assessing significant estimates made by management. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the

examination, 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 the Company.

### COMPANY HISTORY

The Company was incorporated in California on May 23, 1974. It commenced business on July 1, 1974, and received its' license on October 15, 1980. The Company is 100% owned by Old Republic Home Protection Management Company ("ORHPMC"), a subsidiary of Old Republic General Insurance Group, Inc. ("ORGIG"), which in turn is a wholly-owned subsidiary of Old Republic International Corporation ("ORIC"), a Chicago-based, publicly held insurance holding company with subsidiaries engaged mainly in property and liability, mortgage guaranty, and title insurance business.

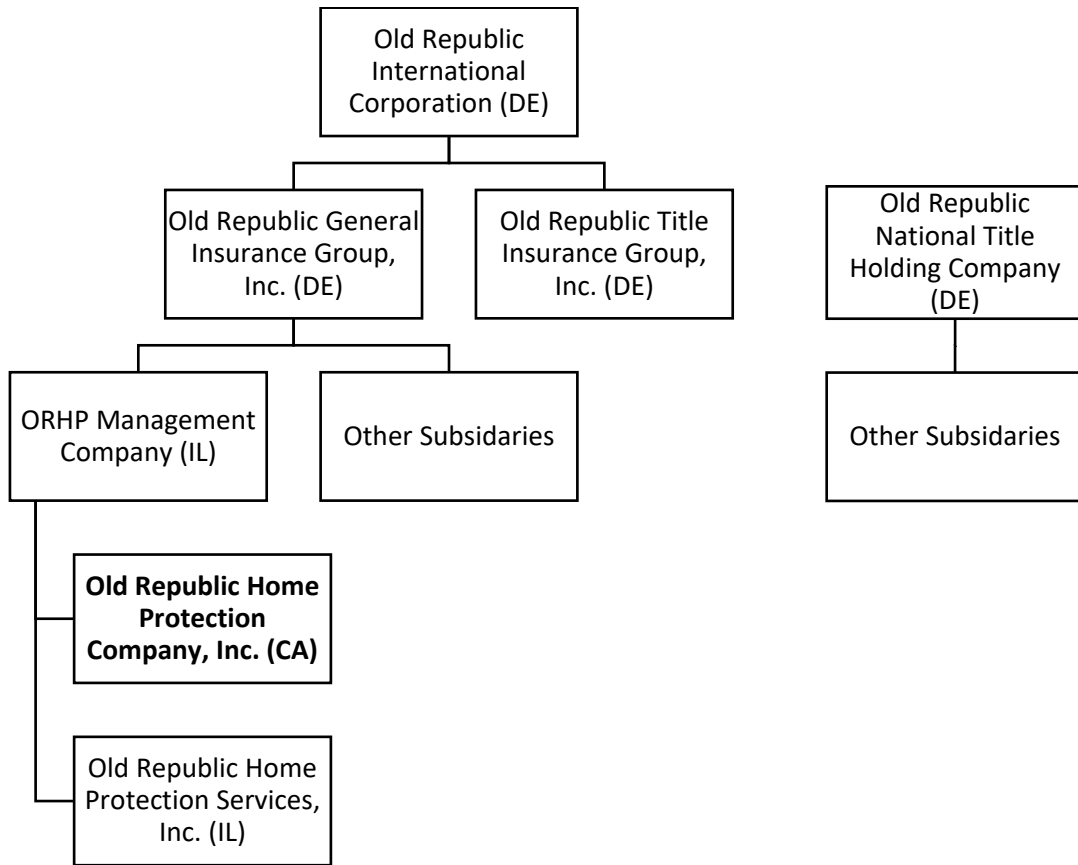
### Dividends Paid

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

<u>Year</u>	<u>Amount</u>
2017	\$12,500,000
2018	11,500,000
2019	15,000,000
2020	14,500,000
2021	<u>6,000,000</u>
Total	\$59,500,000

## MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of ORHP 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, 2021 (all ownership is 100%):



The Board of Directors consists of seven members who are elected annually. The following are members of the Board and Principal Officers of the Company serving at December 31, 2021:

Directors

Name and Location

Principal Business Affiliation

Jeffrey J. Bluhm  
Tampa, Florida

Executive Vice President – Liason for The Fund  
at Old Republic Title  
Old Republic National Title Insurance Company

Frank Caballero  
Charlotte, North Carolina

Senior Vice President & Chief Operating Officer  
Old Republic Home Protection Company

Robert J. Chapman  
Minneapolis, Minnesota

Executive Vice President – Chief Information  
Officer  
Old Republic Title Company

W. Todd Gray  
Chicago, Illinois

Executive Vice President – President  
Old Republic Asset Management

Jeffrey Lange  
Chicago, Illinois

Chief Operating Officer  
Old Republic General Insurance Group

Chris G. Lieser  
Minneapolis, Minnesota

Executive Vice President – Chief Financial  
Officer  
Old Republic National Title Insurance Company

Craig R. Smiddy  
Chicago, Illinois

President and Chief Executive Officer  
Old Republic International Corporation

## Principal Officers

<u>Name</u>	<u>Title</u>
Craig R. Smiddy	President and Chief Executive Officer Old Republic International Corporation
W. Todd Gray	Executive Vice President – President Old Republic Asset Management
Frank Caballero <sup>(a)</sup>	Senior Vice President & Chief Operating Officer Old Republic Home Protection Company
Marisol Natera <sup>(b)</sup>	Chief Accounting Officer Old Republic Home Protection Company
James Mullery <sup>(c)</sup>	Senior Vice President of Sales & Marketing Old Republic Home Protection Company
Kathleen P. Kumer	Associate General Counsel Old Republic Home Protection Company
Selina Lee	Controller & Treasurer Old Republic Home Protection Company

The following changes in the Board of Directors and Officers occurred subsequent to the examination date:

- (a) Effective June 2022, Frank Cabellero was terminated.
- (b) Effective June 2022, Marisol Natera was promoted to Chief Executive Officer.
- (c) Effective June 2022, James Mullery was promoted to President.

## Management Agreements

Investment Counsel Services Agreement: The Company has the Investment Counsel Services 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 its 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 minimum fee is \$2,000. 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 2017, 2018, 2019, 2020, and 2021 were: \$66,946, \$69,059, \$70,291, \$54,651, and \$75,361, 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, 2004. 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.

**Affiliate Service 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. All charges for services incurred under this agreement shall reflect actual costs and are arrived at a fair and equitable manner. The agreement was approved by the CDI on April 9, 2013. The amounts paid by the Company for services during 2017, 2018, 2019, 2020, and 2021 were: \$23,795, \$19,721, \$34,515, \$104,274, and \$34,445, respectively.

**Software Maintenance and Development Agreement:** The Company has a Software Maintenance and Development Agreement with its affiliate, Old Republic Home Protection Services, Inc. (ORHPS), effective January 1, 2016. Under the agreement, ORHPS provides continued software development to all programs and related interfaces. All charges incurred under this agreement shall be determined, closely as possible, to actual costs of the services and products provided. The Company submitted the agreement to the CDI on July 31, 2017 and it was approved on July 25, 2018.

**IT Systems Administration and Computer Operations Services Agreement:** The Company has an IT Systems Administration and Computer Operations Services Agreement with ORHPS, effective January 1, 2016. ORHPS provides the following services: licensing, security, availability, data integrity, disaster recovery, capacity, performance, and environment. All charges incurred under this agreement shall be determined, closely as possible, to actual costs of the services rendered and facilities made available to the Company. The Company submitted the agreement to the CDI on July 31, 2017 and it was approved on July 25, 2018.

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 2017, 2018, 2019, 2020, and 2021 were: \$3,672,117, \$4,724,978, \$5,094,169, \$5,374,626 and \$3,876,882, respectively.

### TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and it is licensed in all states except for Alaska, Massachusetts, New Hampshire, New York, and the District of Columbia as of December 31, 2021. The Company acquired Freedom Home Warranty in May 2020 which had serviced the Pacific Northwest and Hawaii. In September 2019, the Company commenced writing business in Mississippi.

Direct contract fees for 2021 were \$247.9 million. Of this amount, \$88.2 million (35.57%) was written in California, \$32.0 million (12.93%) in Arizona, and \$26.4 million (10.64%) in Texas. In 2021, new contracts on resale homes accounted for 57.43% of the total contract fees written and renewal contracts comprised the balance of 42.57%. The Company's home office is located in San Ramon, California where the following services are performed: accounting and financial reporting; marketing; sales support and service including for plans and claims; and call center departments. The Company also has an office in Charlotte, North Carolina where human resources and payroll along with call center departments are located.

The Company has eighty account executives marketing the contracts to real estate professionals. The standard home warranty plan offers coverage on plumbing, heating, electrical systems, limited pest control, garage door opener, and central vacuum, as well as appliances including: oven/range, cooktop, built-in microwave, dishwasher, and trash compactor. Optional coverage varies by state and can include: air conditioner/cooler, swimming pool/spa equipment, ornamental fountain motor/pump, solar pool/spa components, solar hot water system equipment, outdoor kitchen, washer/dryer, kitchen refrigerator, water softener/filtration systems, septic systems, and limited roof leak repair.

## REINSURANCE

The Company does not utilize reinsurance.

## ACCOUNTS AND RECORDS

Pursuant to California Insurance Code (CIC) Section 12740(c), “protection contract fee” means the consideration received, or to be received, by a home protection company for the issuance of any home protection contract. The “convenience fees” earned by the Company is determined to meet the definition set forth and should be included in its premium tax returns as part of the “protection contract fee”. It was noted that the Company did not report the convenience fees in its premium tax returns. It is recommended that the Company file amended premium tax returns for years 2019 and onward to include “convenience fees” as part of the “protection contract fee” as defined by CIC Section 12740(c).

## 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, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Contract Holders from December 31, 2016 through December 31, 2021

Statement of Financial Condition  
as of December 31, 2021

<u>Assets</u>		<u>Notes</u>
Bonds	\$ 83,756,077	
Common stock	98,317,241	
Cash, Cash Equivalents, and Short-Term Investments	2,506,582	
Home Protection Fees Receivable	14,971,281	
Receivable from Parent, Subsidiaries, and Affiliates	7,384,182	
Federal Income Tax Recoverable	718,465	
Interest, Dividends, and Real Estate Income Due and Accrued	<u>809,714</u>	
Total assets	<u>\$ 208,463,542</u>	
<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Claims Adjusted & Unpaid or in process of Adjustment	\$ 18,452,722	(1)
Claim Service Expense	1,570,166	(1)
Other expenses	11,987,785	
Taxes, Licenses and Fees	377,949	
Unearned Home Protection Contract Fees	101,797,228	
Payable to Parent, Subsidiaries, and Affiliates	540,557	
Premiums Received in Advance	3,385,641	
Other Accounts Payable	1,262,681	
Current Federal Income Taxes (Deferred Taxes)	<u>929,766</u>	
Total liabilities	140,304,495	
Common Capital Stock	\$ 160,518	
Gross Paid-In and Contributed Surplus	5,459,900	
Unassigned Funds (Surplus)	32,505,698	
Unrealized Gains on Investments, net of tax	<u>30,032,931</u>	
Surplus as Regards Contract Holders	<u>68,159,047</u>	
Total Liabilities, Surplus, and Other Funds	<u>\$ 208,463,542</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2021

Underwriting Income

Home Protection Contract Fees Earned		\$ 243,880,601
Deductions:		
Claims Incurred	\$ 173,914,072	
Claim Services Expenses Incurred	28,056,493	
Other Underwriting Expenses Incurred	<u>51,532,971</u>	
Total underwriting deductions		<u>253,503,536</u>
Net underwriting loss		(9,622,935)
<u>Investment Income</u>		
Net Investment Income Earned	\$ 5,493,918	
Net Realized Capital Gain	<u>702,588</u>	
Net investment gain		6,196,506
<u>Other income</u>		
Convenience Fees	\$ 2,262,590	
Other Income	9,978	
Commissions & Other Fees	<u>472</u>	
Total other income		<u>2,273,040</u>
Net Income Before Federal Income Taxes Incurred		(1,153,389)
Federal Income Taxes Incurred		<u>(117,013)</u>
Net Loss		<u>\$ (1,036,376)</u>

Capital and Surplus Account

Surplus as Regards Contract Holders, December 31, 2020		\$ 64,801,064
Net Loss	\$ (1,036,376)	
Change in Net Unrealized Capital Gains	12,431,680	
Change in Net Deferred Income Tax	(3,113,449)	
Change in Non-Admitted Assets	4,715,133	
Dividends to Stockholders	<u>(6,000,000)</u>	
Change in Surplus as Regards Contract Holders for the year		<u>3,357,983</u>
Surplus as Regards Contract Holders, December 31, 2021		<u>\$ 68,159,047</u>

Reconciliation of Surplus as Regards to Contract Holders  
from December 31, 2016 through December 31, 2021

Surplus as Regards Contract Holders, December 31, 2016			\$ 51,074,093
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 58,152,466	\$ 10,185	
Change in Net Unrealized Capital Losses		10,185	
Change in Net Deferred Income Tax	22,641,387		
Change in Non-Admitted Assets		4,198,714	
Dividends to Stockholders		<u>59,500,000</u>	
Total Gains and Losses	<u>\$ 80,793,853</u>	<u>\$ 63,708,899</u>	
Net Increase in Surplus as Regards Contract Holders			<u>17,084,954</u>
Surplus as Regards Contract Holders, December 31, 2021			<u>\$ 68,159,047</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Claims Adjusted and Unpaid or in Process of Adjustment and Claim Service Expense

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, 2021. Based on the review of the analysis, the reserve for the above captioned accounts appear reasonable and have been accepted for the purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 8): It is recommended that the Company file amended premium tax returns for years 2019 and onward to include "Convenience Fees" as part of "protection contract fee" as defined by California Insurance Code (CIC) Section 12740(c).

### Previous Report of Examination

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

Accounts and Records (Page 7): It was recommended that the Company institute procedures to ensure compliance with CIC Section 735. The Company is now in compliance.

## 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,

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Vicky Au-Yeung  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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Kyo Chu, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California