

Report of the Examination of
Old Republic Surety Company
Brookfield, Wisconsin
As of December 31, 2021

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May 17, 2023

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

OLD REPUBLIC SURETY COMPANY
Brookfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Old Republic Surety Company (ORSC or the company) was conducted in 2017 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2021 and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Old Republic International's U.S.-based insurance companies. The Pennsylvania Insurance Department acted as the lead state for the coordinated examinations. Examination work performed by the Pennsylvania Insurance Department was reviewed and relied on when deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition,

either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This consideration includes assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized on December 28, 1981, under the title Northwestern National Surety Company, and commenced business on the same date. The company was organized as a subsidiary of Northwestern National Insurance Company of Milwaukee, Wisconsin (NNIC) to specialize in underwriting surety and fidelity risks.

NNIC, previously a subsidiary of Armco Inc. now liquidated, was a multi-line property and casualty (P&C) insurer and reinsurer, which ran off its existing business in May of 2019. Prior to the organization of the company, NNIC had acquired Lawyers Surety Corporation (LSC) and State Surety Company (SSC) and assumed their business. In 1982, the company began to assume the surety and fidelity risks of NNIC. In 1983, NNIC contributed the stock of LSC and SSC to the company.

Under NNIC's ownership, the company acted as a reinsurer as well as a direct writer. NNIC assumed 100% of the direct business of LSC and SSC, and ceded its direct fidelity and surety risks, together with the business assumed from LSC and SSC, to the company. Agents of LSC and SSC wrote business where these insurers were licensed, while NNIC's agents wrote in the other states. LSC and SSC functioned as the company's marketing vehicles and branch offices.

On May 30, 1986, NNIC sold the company and its subsidiaries to Old Republic International Corporation (ORI). ORI contributed the shares to Old Republic General Insurance Group, Inc. (ORGIG), which, in turn, contributed the shares to Old Republic Surety Group, Inc. (ORSG). In this manner, ORSC became a third-tier subsidiary of ORI and a direct, wholly owned subsidiary of ORSG. Effective with the acquisition, the company's name was changed to that presently used.

Plan of Operation

The company is staffed by its own officers and employees and pays most of its expenses on its own behalf. However, as a member of a holding company system, ORSC engages in the exchange of risks and services with affiliates under various written agreements. Accordingly, intercompany balances are created in the ordinary course of business with settlements made on either a monthly or quarterly basis, depending on the terms of the applicable written agreement. Expenses other than taxes are allocated on the basis of specific identification or resource utilization estimates. The company files its federal income taxes on a consolidated basis with Old Republic International Corporation and other affiliates that are regarded as being members of ORI's General Insurance Group.

The company leases all office facilities necessary for its operations. ORSC's operations are coordinated from its home office in Brookfield, Wisconsin. A nonaffiliated vendor is contracted for the storage of home office records. ORSC has a network of satellite offices in the following 26 cities:

Albany, New York	Atlanta, Georgia	Birmingham, Alabama
Boston, Massachusetts	Charlotte, North Carolina	Chicago, Illinois
Cincinnati, Ohio	Dallas, Texas	Decatur, Illinois
Denver, Colorado	Des Moines, Iowa	Kansas City, Missouri
Los Angeles, California	New York City, New York	Milwaukee, Wisconsin
Minneapolis, Minnesota	Orlando, Florida	Philadelphia, Pennsylvania
Phoenix, Arizona	Pittsburgh, Pennsylvania	Portland, Oregon
Sacramento, California	Salt Lake City, Utah	Seattle, Washington
Sioux Falls, South Dakota	Washington, D.C	

In 2021, the company wrote direct premium in the following states:

California	\$12,817,651	15.2%
Florida	8,031,403	9.6
Illinois	5,371,654	6.4
Pennsylvania	4,264,600	5.1
Texas	4,130,638	4.9
All others	<u>49,488,533</u>	<u>58.8</u>
Total	<u>\$84,104,479</u>	<u>100.0%</u>

The company is licensed in the District of Columbia and all states except Alaska, Connecticut, Delaware, Hawaii, Kentucky, Louisiana, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

The major products marketed by the company include contractors' performance and payment bonds, fidelity and surety bonds, and notary errors and omissions (E&O). All direct business is written through independent agencies. ORSC offers approximately 500 classes of fidelity and surety bonds. ORSC has the ability to tailor the terms and conditions of the bond to the specific needs of both the agent and the principal. ORSC's strategy has been to avoid large contract surety and financial institution fidelity bonds. Through reinsurance agreements with ORI subsidiaries, ORSC underwrites fidelity, surety, and notary E&O business written by affiliates in those states where ORSC is not licensed. The company also assumes business from one affiliate, Old Republic Insurance Company.

The company uses standard contract forms and commission schedule for its agents. Agents are compensated by a commission schedule unless a special rate is negotiated.

The following table is a summary of the net insurance premiums written by the company in 2021. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Other liability – occurrence	\$ 48,020	\$ 6,785	\$ 0	\$ 54,805
Fidelity	2,698,799	305,649	129,372	2,875,076
Surety	<u>81,357,660</u>	<u>16,303,119</u>	<u>9,491,873</u>	<u>88,168,906</u>
Total All Lines	<u>\$84,104,479</u>	<u>\$16,615,553</u>	<u>\$9,621,245</u>	<u>\$91,098,787</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Thomas A. Dare Chicago, Illinois	ORI Senior Vice President and Secretary	2023
Jeffrey P. Lange Chicago, Illinois	ORI Senior Vice President Underwriting & Distribution	2023
Stephen J. Oberst Chicago, Illinois	ORI Executive Vice President	2023
Craig R. Smiddy Chicago, Illinois	ORI Chief Executive Officer	2023
Frank J. Sodaro Chicago, Illinois	ORI Senior Vice President and Chief Financial Officer	2023

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Alan P. Pavlic	President and Chief Operating Officer
Karen J. Haffner	Treasurer and Senior Vice President
Thomas A. Dare	Secretary

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Alan Pavlic – non-voting member
Craig R. Smiddy – Chair
Stephen J. Oberst
Jeffrey P. Lange

Audit Committee

Craig R. Smiddy – Chair
Frank J. Sodaro
Stephen J. Oberst
Jeffrey P. Lange

Compensation Committee

Craig R. Smiddy – Chair

Stephen J. Oberst

Jeffrey P. Lange

IV. AFFILIATED COMPANIES

Old Republic Surety Company is a member of a holding company system led by Old Republic International Corporation. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. Note that the organizational chart is a simplified version of the complete organizational chart due to the size and complexity of the holding company system.

Organizational Chart As of December 31, 2021

Old Republic International Corporation (DE)	ORI
Old Republic General Insurance Group, Inc. (DE)	ORGIG
Old Republic General Insurance Corporation (IL)	ORGENCO
Old Republic Insurance Company (PA)	ORINSCO
Old Republic Surety Group, Inc. (DE)	ORSG
Old Republic Surety Company (WI)	ORSC
Old Republic National Services Group, Inc. (IL)	ORNSG
Old Republic Asset Management Corporation (IL)	ORAM
Old Republic General Services, Inc. (IL)	ORGS
Old Republic Capital Corporation (DE)	ORCC

Note that the above organizational chart shows only a segment of the group's structure. Only the affiliates that directly affect the operations of Old Republic Surety Company are shown.

Old Republic International Corporation

Old Republic International Corporation is a Chicago-based insurance holding company incorporated under the laws of Delaware on March 10, 1969. ORI's common shares are publicly traded on the New York Stock Exchange. It conducts its operations principally 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 Mortgage Insurance Group (which is a runoff business). As of December 31, 2021, the audited consolidated GAAP financial statements for ORI reported total assets of \$25.0 billion, liabilities of \$18.1 billion, and total common shareholders' equity of \$6.9 billion. In addition, the company posted a net income of \$1.5 billion.

Old Republic General Insurance Group, Inc.

Old Republic General Insurance Group, Inc., was incorporated in Delaware on December 3, 1979. This subsidiary is the leading holding company of ORI's General Insurance Group. The General Insurance Group is the most significant operating division within the holding company system and contains the greatest diversity in terms of the lines of business and scope of ancillary insurance activities. ORGIG's unaudited GAAP financial statements as of December 31, 2021, reported assets of \$20.6 billion, liabilities of \$16.5 billion, surplus of \$4.1 billion, and net income of \$886.5 million.

Old Republic Surety Group, Inc.

Old Republic Surety Group, Inc., organized on March 27, 1986, is a holding company domiciled in Delaware. The corporation was organized as a means to reward executives responsible for the financial results of ORSC and its subsidiaries should their guidance in the initial years of these companies profit ORI. ORGIG provided \$13,400,000 of the corporation's initial capitalization through the purchase of 4,000 common shares at \$100 per share, 9,500 shares of redeemable voting preferred shares at \$1,000 per share, and \$3,500,000 in ten-year debenture. Seven executives subscribed to a total of 1,000 common shares at \$100 per share. Pursuant to a stock subscription and purchase agreement dated effective May 30, 1986, participating executives were able to exchange their common shares for cash or common shares of ORI between July 1, 1996, and July 1, 2001. All the executives exchanged their common shares resulting in ORGIG owning 100% of ORSG. As of December 31, 2021, the unaudited GAAP financial statements for ORSG reported assets of \$120,892,198, liabilities of \$155,257, and shareholders' equity of \$120,736,941.

Old Republic Asset Management Corporation

Old Republic Asset Management Corporation (ORAM), organized as an Illinois corporation on January 28, 1966, provides investment management services to the members of the Old Republic holding company system, including ORSC, pursuant to written agreements. The corporation was initially known as Trinity Insurance Agency, Inc. In March 1980 the corporate title was changed to that presently used as a reflection of the change in its purposes and scope of activities. The corporation has no employees, rather it utilizes those of Old Republic General Services, Inc. Functionally, it serves as a cost allocation center for accounting control purposes. As of December 31, 2021, ORAM's unaudited GAAP

financial statements reported assets of \$11.2 million, liabilities of \$629 thousand, and shareholders' equity of \$10.5 million. In addition, the company posted a net income of \$605 thousand.

Old Republic General Services, Inc.

Old Republic General Services, Inc., organized as an Illinois corporation on July 20, 1960, provides warehousing, data processing, printing, administrative, and professional services, primarily accounting services, for some of the insurers (mostly the Chicago based companies) in the Old Republic holding company system. The fees paid to ORGS for 2021 were immaterial to each registrant company but are disclosed in the individual Annual Statement of each registrant company. The corporation was formerly known as R.E. Flannery and Associates, Inc. In 1978, the corporate title was changed to that presently used as a reflection of the change in its purpose and scope of activities. As of December 31, 2021, ORGS's unaudited GAAP financial statement reported assets of \$34.2 million, liabilities of \$45.9 million, common shareholders' equity of (\$11.7) million, and net loss of \$3.1 million.

Old Republic Insurance Company

Old Republic Insurance Company (ORINSCO) was incorporated under the laws of the Commonwealth of Pennsylvania on April 11, 1935 and commenced business on April 21, 1935. Interests identified with various coal companies and allied industrial concerns organized the corporation under the title Coal Operators Casualty Company. On April 18, 1955, the Old Republic holding company system acquired control of Coal Operators Casualty Company from its original sponsors and on June 7 of the same year changed the name to that presently used.

Old Republic Insurance Company domiciled in Pennsylvania, is the flagship carrier for the group. ORINSCO is based in Mount Pleasant, Pennsylvania and manages a middle market book of business and several runoff books of business. Business is produced by the Subsidiary and Operating Companies ("SOC's") each with its own financial accounting, underwriting and claims departments. It is licensed in all 50 U.S. states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. As of December 31, 2021, the audited statutory basis financial statements of ORINSCO reported assets of \$3,647,710,874, liabilities of \$2,221,321,611, and capital and surplus of \$1,426,389,263. Operations for 2021 produced net income of \$188,274,536.

Agreements with Affiliates

The company is staffed by its own officers and employees and pays most of its expenses on its own behalf. However, as a member of a holding company system, ORSC engages in the exchange of risks and services with affiliates under various written agreements. Reinsurance agreements are described in the reinsurance section of this report.

Tax-Sharing Agreement

The company entered into a federal tax-sharing agreement by and between ORI and its subsidiaries in the Old Republic Surety Group of companies through an addendum to this agreement dated April 28, 2004, with the effective tax year ended December 31, 2004. This agreement establishes a method for allocating the consolidated tax liability of the affiliated group among ORI and the subsidiaries, for reimbursing ORI for payment of such tax liability, and for compensating any party for use of its losses and/or tax credits. For each tax period each member in the group should calculate its separate federal income tax liability and pay such amount to ORI. If the sum of the amount payable to ORI in this manner exceeds the consolidated tax liability for the year, ORI will allocate the excess in accordance with each member's share of excess losses and tax credits that were absorbed in the consolidated return. ORI will pay to each member its allocable portion of such excess amount within 45 days after the date of filing of the consolidated return. This agreement may be terminated by mutual agreement of both parties.

Service Agreement with Old Republic Insurance Company

The company entered into a service agreement with ORINSCO dated January 1, 1994, revised in its entirety June 1, 2009, and additionally revised on February 1, 2017, whereby each party agreed to avail itself of certain resources and support to be provided by the other. ORSC agreed to provide ORINSCO with human resources support, administration of the executive fleet program, payroll function, and various other services. Though not specified in the agreement, ORSC's services with respect to this agreement apply only to employees of ORINSCO's Milwaukee branch. ORINSCO agreed to furnish ORSC with data processing hardware and related software, lease management for its home office only, and mail room service. This contract is automatically renewable but either party may terminate this agreement at any time with 120 days' written notice to the other. In the event of termination, both parties will provide reasonable assistance to the other party in obtaining replacement services.

Expense Reimbursement Agreement with Old Republic Insurance Company

Effective January 1, 1994, revised in its entirety June 1, 2009, and additionally revised on February 1, 2017, the company entered into an expense reimbursement agreement with ORINSCO. Under this agreement, the parties agree to furnish one another with monthly statements of expenses incurred with respect to their services agreement effective January 1, 1994, as described in the foregoing paragraph.

ORSC is to furnish a monthly billing reflecting services rendered based on the following:

- A. Cost of leases for fleet automobiles on actual billings as received from the leasing company.
- B. Cost of health administration and payroll self-service as received from the payroll administration company.

ORINSCO is to furnish a monthly billing reflecting service rendered based on the following:

- A. A negotiated percentage of the monthly ORINSCO charge for lease, disk drive, hardware maintenance, software maintenance, and hot site recovery charges.
- B. A negotiated percentage of the weighted average cost per month for MIS operations staff, rent, utilities, and insurance.
- C. Occupancy cost on actual square footage.
- D. Mail room at an hourly rate.
- E. Mail postage meter at a negotiated percentage.
- F. Human resources personnel costs based on a proportionate share of the number of employees in each company.

Any costs which are paid by either party to outside concerns which can be directly identified to the other party will be billed directly on a monthly basis and may be included with invoices for services rendered. Each party may set off any obligation or right under this agreement against any right or obligation against this or any other agreement or transaction between the parties. This agreement will automatically renew on its anniversary date, however, either party may terminate this agreement at any time with 120 days' written notice to the other.

Service and Administrative Agreement with Old Republic Insurance Company

Effective June 1, 1986, the company entered into a service agreement whereby the company is to provide certain services with respect to the fidelity and surety business produced by ORINSCO including, but not limited to, underwriting, claims management, billing and receipts, rate and form filings, appointment, training, supervision of agents, and accounting services. Any party may terminate this agreement at any time with 120 days' prior written notice. The agreement would terminate automatically upon termination of reinsurance cessions to ORSC.

Expense Reimbursement Agreement with Old Republic Insurance Company

Effective June 1, 1986, the company entered into an expense reimbursement agreement with ORINSCO. Under this agreement, the company agrees to furnish ORINSCO with a quarterly statement of expenses incurred with respect to its service agreement effective June 1, 1986, as described in the foregoing paragraph. Invoiced expenses may include allocation of salaries and other overhead items but shall not in any case exceed on an annual basis 30% of the total premiums covered by the reinsurance agreement effective June 1, 1986. ORINSCO has the right to inspect relevant books and records of ORSC at any time during normal business hours. Each party may set off any obligation or right under this agreement against any right or obligation against this or any other agreement or transaction between the parties. There is no direct provision for termination but as a practical matter cancellation and runoff of the company's assumption reinsurance contract with ORINSCO would effectively nullify this agreement, as would cancellation of the service agreement described above.

Investment Counsel Services Agreement with Old Republic Asset Management Corporation

Effective July 1, 2012, the company entered into an investment counsel services agreement with ORAM. Under this agreement, ORAM is to act as investment counsel, advising the company on investment policy, executing purchases and sales of investments, monitoring the value of its invested assets, and preparing investment statements for insurance regulatory purposes on a quarterly basis. ORSC is to retain the custody of, responsibility for, and the control of all investments. This agreement may be terminated by either party upon 30 days' advance notice. The fee for services provided by ORAM is a sliding scale percentage that declines as assets under management increase. ORSC is to pay ORAM the following quarterly fee based on assets under management (less a working capital credit in the

amount of \$1,000,000) at the date the fee is assessed.

Net Account Assets	Quarterly Fee	Annualized Quarterly Fee
Minimum Fee	\$500	\$2,000
First \$100,000,000	1.25 basis points	5 basis points
Next \$150,000,000	0.75 basis points	3 basis points
Over \$250,000,000	0.50 basis points	2 basis points

In 2021, ORSC incurred \$67,514 in fees for investment counsel and services rendered by ORAM.

Expense Reimbursement Agreement with Old Republic Surety Group, Inc.

Effective January 1, 1997, the company entered into an expense reimbursement agreement with ORSG. Under this agreement, the company agrees to furnish ORSG with a statement in September and December of each year of expenses incurred with respect to any accounting and miscellaneous services that the company might perform for ORSG. Invoiced expenses may include costs incurred in performing accounting and administrative services and may include allocations of salaries and other overhead items. ORSG has the right to inspect the books and records of ORSC at any time during normal business hours. Any dispute that cannot be agreeably resolved is to be referred to the internal auditors of ORI for resolution. Each party may set off any obligation or right under this agreement against any right or obligation against this or any other agreement or transaction between the parties. There is no formal provision for the termination of services under this agreement.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

The company maintains a four-layer Surety and Fidelity Excess of Loss reinsurance contract with 50% of the risk being ceded to Munich Reinsurance America, Inc., 30% of the risk ceded to Transatlantic Reinsurance Company, 10% of the risk ceded to Hannover Rück SE, and 10% of the risk ceded to SCOR Reinsurance Company. Contract surety bonds, commercial surety bonds, and fidelity bonds are covered by the agreement, with certain exclusions. The contract can be terminated by the company with 30 days' written notice, given certain circumstances. The coverages provided under this agreement effective for 2021 are summarized as follows:

1. Type: First Excess
Business reinsured: Surety and Fidelity
Retention:
 - a. Contract Surety Bonds - \$500,000 each principal
 - b. Commercial Surety Bonds and Fidelity Bonds - \$250,000 each principalCoverage:
 - a. Contract Surety Bonds - 100% of net loss each principal in excess of \$500,000, not to exceed each principal limit of \$3,000,000
 - b. Commercial Surety Bonds and Fidelity Bonds - 100% of net loss each principal in excess of \$250,000, not to exceed each principal limit of \$3,000,000Total coverage for all principals and loss events shall not exceed an annual aggregate limit of 100% of \$7,500,000 for each calendar year in which the contract remains in effect

2. Type: Second Excess
Business reinsured: Surety and Fidelity
Retention:
 - a. Contract Surety Bonds and Commercial Surety Bonds - \$3,000,000 each principal
 - b. Fidelity Bonds - \$3,000,000 each principalCoverage:
 - a. Contract Surety Bonds and Commercial Surety Bonds - 100% of net loss each principal in excess of \$3,000,000 up to a per principal limit of \$5,000,000
 - b. Fidelity Bonds - 100% of net loss each principal in excess of \$3,000,000 up to a per principal limit of \$5,000,000

Total coverage for all principals and loss events shall not exceed an annual aggregate limit of 100% of \$6,000,000 for each calendar year in which the contract remains in effect

3. Type: Third Excess
- Business reinsured: Contract Surety Bonds
- Retention: \$5,000,000 each principal
- Coverage: 100% of net loss each principal in excess of \$5,000,000, not to exceed each principal limit of \$10,000,000
- Total coverage for all principals shall not exceed an annual aggregate limit of \$10,000,000 for each calendar year in which the contract remains in effect
4. Type: Fourth Excess
- Business reinsured: Contract Surety Bonds
- Retention: \$10,000,000 each principal
- Coverage: 100% of net loss each principal in excess of \$10,000,000, not to exceed each principal limit of \$20,000,000
- Total coverage for all principals shall not exceed an annual aggregate limit of \$10,000,000 for each calendar year in which the contract remains in effect

Beginning in 2014, the company entered into a Large Account Quota Share Reinsurance Contract for contract surety principals with a bonded line of credit greater than \$20 million. The company cedes 60% participation of all subject bonds to four participating reinsurers with 50% of the risk being ceded to Munich Reinsurance America, Inc., 30% of the risk ceded to Transatlantic Reinsurance Company, 10% to SCOR Reinsurance Company, and 10% of the risk ceded to Hannover Rück SE. The contract is renewable on a yearly basis and can be terminated by the company with 30 days' written notice. The coverages provided under this agreement effective for 2021 are summarized as follows:

1. Type: 60% Quota Share
- Business reinsured: Contract surety principals with a bonded line of credit greater than \$20 million
- Retention: 40% of subject business
- Coverage: 60% of subject business

Affiliated Assuming Contracts

1. Type: 100% Quota Share
- Reinsured: Old Republic Insurance Company
- Scope: Covered open claims of the reinsured under binders, policies, and reinsurance contracts providing fidelity, surety, and notary public errors and omissions insurance or reinsurance
- Coverage:
 - a. 100% of the liability in force as of April 1, 1996, assumed by the reinsured from the company under a portfolio reinsurance treaty effective January 1, 1986
 - b. 100% of the liability in force as of April 1, 1996, assumed by the reinsured under its agreements with six named insurers
 - c. 100% of the liability of the reinsured in force as of and written on or after April 1, 1996, under contracts underwritten and managed by the company
- Effective date: June 1, 1986
- Termination: At any December 31 by either party providing at least 90 days' prior written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2021, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Old Republic Surety Company
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$103,046,535	\$	\$103,046,535
Common stocks	60,764,410		60,764,410
Cash, cash equivalents, and short-term investments	2,267,629		2,267,629
Investment income due and accrued	820,425		820,425
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	8,279,233	3,181,054	5,098,179
Reinsurance:			
Amounts recoverable from reinsurers	2,073,925		2,073,925
Current federal and foreign income tax recoverable and interest thereon	140,153		140,153
Furniture and equipment, including health care delivery assets	282,991	282,991	
Receivable from parent, subsidiaries, and affiliates	1,841,247		1,841,247
Write-ins for other than invested assets:			
Miscellaneous assets	43,149	43,149	
prepaid expenses	999,203	999,203	
Leasehold improvements	135,601	135,601	
Other Receivables	<u>3,000</u>	<u>3,000</u>	
Total Assets	<u>\$180,697,501</u>	<u>\$4,644,998</u>	<u>\$176,052,503</u>

Old Republic Surety Company
Liabilities, Surplus, and Other Funds
As of December 31, 2021

Losses		\$ 12,287,063
Loss adjustment expenses		7,097,178
Commissions payable, contingent commissions, and other similar charges		3,351,027
Other expenses (excluding taxes, licenses, and fees)		5,231,855
Taxes, licenses, and fees (excluding federal and foreign income taxes)		562,290
Net deferred tax liability		529,973
Unearned premiums		48,101,395
Advance premium		372,163
Ceded reinsurance premiums payable (net of ceding commissions)		3,115,180
Amounts withheld or retained by company for account of others		30,121
Drafts outstanding		(460,888)
Payable to parent, subsidiaries, and affiliates		19,293
Write-ins for liabilities:		
Escheat fund liability		17,389
Miscellaneous liabilities		21,213
State sales tax payable		4,576
Total Liabilities		<u>80,279,829</u>
Common capital stock	\$ 2,900,000	
Gross paid in and contributed surplus	16,534,036	
Unassigned funds (surplus)	<u>76,338,638</u>	
Surplus as Regards Policyholders		<u>95,772,674</u>
Total Liabilities and Surplus		<u>\$176,052,503</u>

**Old Republic Surety Company
Summary of Operations
For the Year 2021**

Underwriting Income		
Premiums earned		\$84,946,374
Deductions:		
Losses incurred	\$ 6,778,446	
Loss adjustment expenses incurred	2,845,259	
Other underwriting expenses incurred	<u>62,157,807</u>	
Total underwriting deductions		<u>71,781,512</u>
Net underwriting gain (loss)		13,164,862
Investment Income		
Net investment income earned	4,285,532	
Net realized capital gains (losses)	<u>259,843</u>	
Net investment gain (loss)		4,545,375
Other Income		
Net gain (loss) from agents' or premium balances charged off		<u>(603)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		17,709,634
Dividends to policyholders		<u>14,717</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		17,694,917
Federal and foreign income taxes incurred		<u>3,973,088</u>
Net Income (Loss)		<u>\$13,721,829</u>

**Old Republic Surety Company
Cash Flow
For the Year 2021**

Premiums collected net of reinsurance		\$91,333,841
Net investment income		4,732,974
Miscellaneous income		<u>(603)</u>
Total		96,066,211
Benefit- and loss-related payments	\$ 9,346,676	
Commissions, expenses paid, and aggregate write-ins for deductions	63,291,362	
Dividends paid to policyholders	14,717	
Federal and foreign income taxes paid (recovered)	<u>4,708,819</u>	
Total deductions		<u>77,361,574</u>
Net cash from operations		18,704,638
Proceeds from investments sold, matured, or repaid:		
Bonds	\$19,379,539	
Stocks	<u>900,206</u>	
Total investment proceeds		20,279,745
Cost of investments acquired (long- term only):		
Bonds	26,393,649	
Stocks	<u>4,534,019</u>	
Total investments acquired		<u>30,927,668</u>
Net cash from investments		(10,647,923)
Cash from financing and miscellaneous sources:		
Dividends to stockholders	7,000,000	
Other cash provided (applied)	<u>(1,127,611)</u>	
Net cash from financing and miscellaneous sources		<u>(8,127,611)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		
		(70,897)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,338,525</u>
End of Year		<u>\$ 2,267,629</u>

**Old Republic Surety Company
Compulsory and Security Surplus Calculation
December 31, 2021**

Assets		\$176,052,503
Less liabilities		<u>80,279,829</u>
Adjusted surplus		95,772,674
Annual premium:		
Lines other than accident and health	\$91,098,787	
Less policyholder dividends	<u>14,717</u>	
Subtotal	91,084,070	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>18,216,814</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 77,555,860</u>
Adjusted surplus (from above)		\$ 95,772,674
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>25,139,203</u>
Security Surplus Excess (Deficit)		<u>\$ 70,633,471</u>

**Old Republic Surety Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2021**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2021	2020	2019	2018	2017
Surplus, beginning of year	\$82,090,120	\$78,973,211	\$70,614,426	\$70,478,078	\$64,234,902
Net income	13,721,829	11,091,120	9,816,162	9,685,336	11,379,840
Change in net unrealized capital gains/losses	7,260,599	(561,272)	6,112,164	(3,135,447)	2,364,418
Change in net deferred income tax	480,653	863,313	502,356	386,630	(1,073,447)
Change in nonadmitted assets	(780,527)	(1,276,252)	(1,071,897)	(300,171)	(216,865)
Dividends to stockholders	<u>(7,000,000)</u>	<u>(7,000,000)</u>	<u>(7,000,000)</u>	<u>(6,500,000)</u>	<u>(6,210,770)</u>
Surplus, End of Year	<u>\$95,772,674</u>	<u>\$82,090,120</u>	<u>\$78,973,211</u>	<u>\$70,614,426</u>	<u>\$70,478,078</u>

**Old Republic Surety Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2021**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

Ratio	2021	2020	2019	2018	2017
#1 Gross Premium to Surplus	105%	104%	87%	79%	75%
#2 Net Premium to Surplus	95	95	82	76	72
#3 Change in Net Premiums Written	17	21	21	5	6
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	75	73	75	73	75
#6 Investment Yield	2.8	3.1	3.2	3.3	3.4
#7 Gross Change in Surplus	17	4	12	0	10
#8 Change in Adjusted Surplus	17	4	12	0	10
#9 Liabilities to Liquid Assets	48	49	46	46	46
#10 Agents' Balances to Surplus	5	6	5	4	4
#11 One-Year Reserve Development to Surplus	-6	-7	-5	-7	-9
#12 Two-Year Reserve Development to Surplus	-12	-12	-12	-17	-18
#13 Estimated Current Reserve Deficiency to Surplus	-5	-6	-4	-6	-8

Growth of Old Republic Surety Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	\$176,052,503	\$80,279,829	\$95,772,674	\$13,721,829
2020	154,817,708	72,727,588	82,090,120	11,091,120
2019	142,866,356	63,893,145	78,973,211	9,816,162
2018	127,481,703	56,867,277	70,614,426	9,685,336
2017	127,125,256	56,647,178	70,478,078	11,379,840
2016	122,947,467	58,712,565	64,234,902	7,641,066

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	\$100,720,032	\$91,098,787	\$84,946,374	11.3%	68.2%	79.5%
2020	85,133,023	78,058,623	72,529,704	9.5	69.1	78.6
2019	68,897,285	64,770,472	58,689,625	9.2	70.1	79.3
2018	56,027,438	53,355,213	52,391,470	7.9	75.9	83.8
2017	52,989,054	50,612,938	50,061,466	7.9	70.1	78.0
2016	50,738,102	47,887,062	47,503,903	15.4	71.0	86.4

During the examination period, ORSC's admitted assets, liabilities, and surplus as regards policyholders have all increased year-after-year. Specifically, the company's assets increased from \$122.9 million in 2016 to \$176.1 million in 2021, and the company's surplus as regards policyholders increased from \$64.2 million in 2016 to \$95.8 million in 2021. ORSC posted net income every year since 2016. The company's net income ranged from \$7.6 million in 2016 to \$13.7 million in 2021. The company has been growing steadily since 2016 with gross premiums written, net premiums, and premiums earned all nearly doubling during the examination period. The company's expense ratio has been largely stable but dipped to a five-year low in 2021 at 68.2%. Since 2016, the company's combined ratio has not exceeded 100%, ranging between 78.0% and 86.5%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2021, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Unclaimed Funds—It is recommended that Old Republic Surety Company properly file its unclaimed properly in a timely fashion in accordance with ch. 177, Wis. Stat.

Action—Compliance.

2. IT Environment—It is recommended that Old Republic Surety Company work with the hosting provider to develop, plan, and implement a staging/test environment that more accurately reflects the production environment.

Action—Compliance.

3. Committees of Directors—It is recommended that the composition of the executive committee of the board of directors comply with s. 611.56 (1), Wis. Stat.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Conflict of Interest Statements

In accordance with a directive from the Office of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. Annually, the company is required to complete director and officer conflict of interest statements. The examination reviewed the company's conflict of interest statements and determined that several officer and director conflict of interest statements were not completed during the examination period. It is recommended that the company adhere to its policy of having directors, officers, and key employees complete signed conflict of interest statements. The company should retain the signed statements at a location where they can be produced to regulators within a reasonable time.

VIII. CONCLUSION

The company reported net income each year during the examination period. The company has been growing steadily since 2016 with gross premiums written, net premiums, and premiums earned have all nearly doubled during the examination period. The company's expense ratio has been largely stable but dipped to a five-year low in 2021 at 68.2%. Since 2016, the company's combined ratio has not exceeded 100%, ranging between 78.0% and 86.5%. The current examination of Old Republic Surety Company resulted in one recommendation related to the completion of conflict-of-interest statements. The company complied with all prior examination recommendations. The examination determined that no adjustments to surplus were required.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Conflict of Interest Statements— It is recommended that the company adhere to its policy of having directors, officers, and key employees complete signed conflict of interest statements. The company should retain the signed statements at a location where they can be produced to regulators within a reasonable time.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Diana Havitz	Insurance Financial Examiner
Caleb Lindert	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Nick Hartwig, AFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Mike Miller, CFE
Examiner-in-Charge