S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

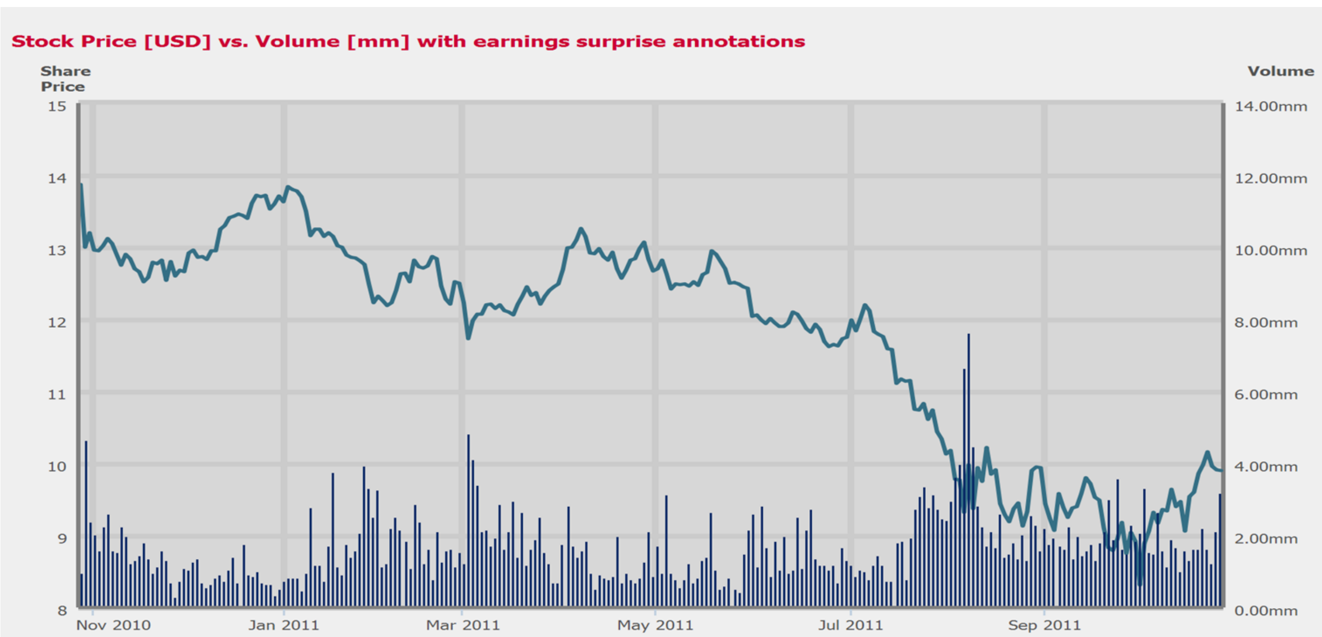
FQ4 2011 Earnings Call Transcripts

Thursday, January 26, 2012 8:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.16)	(0.11)	NM	0.12	(0.90)	(0.86)
Revenue (mm)	1100.19	1179.80	▲7.24	1058.47	4322.01	4529.90

Currency: USD
Consensus as of Jan-20-2012 9:35 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	0.04	(0.12)	NM
FQ1 2011	(0.04)	(0.07)	NM
FQ2 2011	0.02	(0.25)	NM
FQ3 2011	(0.16)	(0.43)	NM

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Christopher Stephen Nard
Former CEO & President of Republic Financial Indemnity Group, Inc.

Scott Eckstein
Director of Account Services

ANALYSTS

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

Jim Ryan
Morningstar Inc., Research Division

Steven William Charest
Divine Capital Markets LLC, Research Division

William Dunloy Laemmel
Divine Capital Markets LLC

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Old Republic International Fourth Quarter 2011 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions]

I would now like to turn the conference over to Scott Eckstein of the Financial Relations Board. Please go ahead.

Scott Eckstein
Director of Account Services

Thank you, operator. Good afternoon and thank you for joining us for Old Republic's conference call to discuss fourth quarter and full year 2011 results. This morning, we distributed a copy of the press release. If there is anyone online who did not receive a copy, you can access it at Old Republic's website which is www.oldrepublic.com. Please be advised that this call may involve forward-looking statements as discussed in the press release dated January 26, 2012. Risks associated with these statements can be found in the company's latest SEC filings.

Joining us today from management are Al Zucaro, Chairman and Chief Executive Officer and Chris Nard, President.

At this time, I'd like to turn the call over to Mr. Al Zucaro for his opening remarks. Please go ahead.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Thank you, Scott and good afternoon to everyone. As always, we assume that you have read the earnings release, so we won't bother repeating what's there. We'll just refer to parts of it as the case arises. As usual, Chris Nard and I will make some remarks about key aspects of our business that we think are or should be of interest to you. And then we'll turn to call to your questions as was stated before.

We'll comment on the General Insurance first, which is as you know our biggest single business from a revenue and capital allocation standpoint as well as now a bottom line standpoint. And then move to the housing-related businesses, which for us are represented primarily by Mortgage Guaranty and Title Insurance. Though we do have other parts such as the Home Warranty business and the so-called consumer credit indemnity, which we'll touch upon that are also related in many ways to housing as such.

So, moving along to General Insurance, the picture, we would say, has gotten increasingly rosier, as 2011 moved along. And by rosier of course we are referring to the fact that the underwriting account, which is all the more important in this era of low investment yields, has gotten progressively better. As we have said in this morning's release, much of the improvement in General Insurance from an underwriting standpoint comes from a reasonably consistent downtrend in claims that have been incurred in our consumer credit indemnity or the CCI line as we refer to it. And 2011 has been one of the lowest periods or I should say the lowest period since 2008 or thereabouts.

As anyone who has followed Old Republic's recent business developments knows the CCI line has been a big time headache for sure for us since late 2007, as the economy went into a tailspin. It's been the only coverage of any significance measured in terms of premium volumes that's been consistently unprofitable during the last 4 years. And the level of losses it has thrown off has been sufficiently high as to drive the rest of the underwriting account in General Insurance into negative territory in both 2009 as well as 2010.

So, if you look at the statistical exhibit that we are posting each quarter on our website. You can readily see the impact of CCI, particularly on what we refer to as our financial indemnity book of business, which includes such things E&O, D&O and so forth.

Now, I would say, we are expecting this pattern of reduced CCI claim costs to continue fairly steadily, as the U.S. economy comes out of recession and more importantly, as the job outlook improves, because obviously with jobs people get income and they are able to meet their obligations. So, just like we said the last time we visited, at the end of the third quarter, we are not yet totally out of the woods, but we believe we are seeing the beginning of the end for this particular episode in our history.

In other respects, the vast majority of our business is producing fairly decent composite underwriting ratios. And again, if you refer to the exhibit, you will see that most of the coverages are clocking in at about the mid 90s from an underwriting standpoint, which is very good particularly - we think particularly for a long tail business as we write at Old Republic. So, barring some unforeseen calamity, we think that the prospects for this business are reasonably good.

As we noted in the release this morning, the rate situation, premium rate that is, is improving ever so slowly for many of the coverages that we offer at Old Republic. And again, as we said as a minimum the rate improvements we're experiencing should provide some offset to the ongoing inflationary pressures that affect the claim costs that are in our case associated with truck repairs and other types of repairs, and as importantly with respect to the medical portion of claims in our largest coverage of workers' compensation. As you may know typically the medical portion of comp cases will account for 40% to 45%. So, as you know, we do have some inflation taking place in this country, when it comes to health care. And as I say, the rate improvements we are getting at least on the comp side should be helpful in attenuating the impact of that inflationary pressure that we are experiencing.

Having said this, still the biggest upside potential for our General Insurance business will not be reached until the U.S. economy and more people become gainfully employed. And you add to this, our objective of growing some important parts of our business through greater geographical reach as well as the further development of our franchise, which we think is highly valuable. And we think we will have the makings of a steadily improving bottom line over the next several years.

Investment income input to that bottom line for the foreseeable future is mostly like going to be subdued at best. We have all heard in the last 48 hours that the Federal Reserve still intends to keep its foot on the brake pedal until 2014, as I recall. And this of course means that we are not going to get much bottom line help from the investment side of the ledger anytime soon.

So again, it's important that for us that given our culture of being an underwriting company that we stay highly focused on that part of the business. It is critical for the future profitability of our business as it has been in the past. If we get more investment income down the road so be it and that will just be icing on the cake. From a financial condition standpoint, we think -- we know we've got enough capital in our General Insurance business to more than adequately support the top-line growth that we expect over the near-term.

In the year that we just completed, we once again experienced a small 3%, 4%, maybe a little more, redundancy in the reserves we had posted in prior years, and of course again we think that this is contributing highly to the quality of our reported earnings.

Cash flow wise, we don't show that in the press release, but we will show the number in subsequent reports that we publish. From a cash flow standpoint, the General Insurance business provided about $273 million of cash from operations last year and that number is more than double the amount that we posted in 2010.

And that number was also somewhat slightly, I might say, additive to the invested asset base after we factor out the cash that's upstream to the parent holding company by our General Insurance companies, and by slightly additive, just to put some perspective on it, we've got about a $6 billion or so investment portfolio in our General Insurance group and net of the upstream dividend, this additional cash flow added some $110 million, $120 million to that invested asset base. So it's not a lot, but it's something. It's positive and as a minimum, it should help us get some increase in investment income going forward.

This is about it in terms of the highlights for our General Insurance business, so I'll - why don't you, Chris, take over.

Christopher Stephen Nard
Former CEO & President of Republic Financial Indemnity Group, Inc.

Sure, good afternoon everybody. I'm going to take a few minutes and speak to the Mortgage Guaranty business and then, as usual, I'll wrap up with a brief review of the Title Insurance results for the quarter.

On the Mortgage Guaranty side, as you can see from our most recent public filings on the matter, our primary Mortgage Guaranty subsidiary, which is Republic Mortgage Insurance Company, which has been in run-off mode since August 31 of this year, is now operating under an order of supervision from the North Carolina Department of Insurance. That order was issued to the company on January 19 and has an initial period of one year from that date. The order has the primary effect on the company of limiting the claims payments under any policy of insurance issued by Republic Mortgage Insurance Company to 50% in cash.

The remaining 50% of the claim payment gets deferred and then is credited to a temporary surplus account on the books of the company. In that order along with the change in the payment of the claims, the North Carolina Insurance Department will have some additional oversight of the run-off insomuch as the company may not enter into any material transactions, or engaged in other named or outlined activities without the prior approval of the North Carolina Insurance Department.

These recent issues aside, the focus for the Mortgage Guaranty business remains unchanged from our previous calls and that is our goal to continue to achieve an effective run-off of that book of business. Within that run-off, our objective remains to contain the economic impact of that run-off within the constraints of the existing capital that we have committed to that line of business, while assuring the fairest possible treatment to all of the policyholders throughout the run-off.

To switch over to the operating side of the business for a few minutes, the trends in the Mortgage Guaranty business continue to be challenging. Again that is in the fourth quarter and also in the year-to-date comparisons. The fourth quarter results were impacted most by what we have seen as the continuing negative trends in the earned premium line. Certainly, those are accelerating and then the difficulties in the incurred loss side of the house. Paid claims, while down somewhat in the quarter-to-quarter periods were higher in the 2011 year than they were when in comparison to 2010. The earned premium line, as I mentioned, was down 4% in the quarter-to-quarter comparisons and down about 11% when you look at the year-to-year analysis.

On the incurred loss side, what we are seeing is that the changes in the reserve provisions continue to be driven largely by the expectation for reduced levels of rescission activities as we move through the delinquent portfolio.

And then on the expense side of the business, if you look at the fourth quarter, the fourth quarter was impacted by about $5 million in one-time charges for severance and related expenses. In the 2011 year, the expense side was impacted by about $39 million, of which $10 million were one-time charges for severance and related things, and roughly $29 million was the write-off of the deferred acquisition costs on the book of the company.

As we continue to look at our expectations for the Mortgage Guaranty book as it runs off over its life, our standard premium deficiency model, which we talk about quarterly, continues to show that, that book of business should run-off positively over its remaining life. But as we have mentioned in the past, timing issues exist in the Mortgage Guaranty business and projections that we do on it. Insomuch as there is a significant possibility of a timing mismatch between the payment of claims, which are front-loaded and the collection of premium, which will occur over the life of the policies. That aside, we continue to believe as we have discussed that it is likely that in the next few quarters the results we have in that business will reflect an operating loss that's in excess of the capital that's embedded in the flagship company.

Under the order of supervision that was recently issued by the Department of Insurance in North Carolina, the results of that outcome look like they will be largely mitigated. As we have said in this morning's release and in previous discussions, Old Republic certainly has long-term interests in this line of business, but as we have said in the past, any continuation of business in this segment would have to be coupled with significantly more clarity around the future of housing finance in the country, particularly with respect to the roles of Fannie and Freddie. And as we have talked about for the last several years, establishment of industry-wide risk management practices that we feel would allow for the better management of the catastrophic risk that is so embedded in this type of financial guaranty. At this point in time, we would say that we see little going on in the marketplace that would address those 2 concerns.

I'll take a second now and transition over to the results, the improving results in our Title Insurance Group for the quarter. Previous calls, we have talked about the improving trends in the Title business. We see those continuing and they continue to build on the positive trends. Really, we have seen for about the last six quarters or so.

In the fourth quarter of 2011 that business posted a pre-tax profit of $18.3 million in the quarter in comparison to about an $8 million profit in the same quarter of 2010. From a full year standpoint, that comparison improved with 2011 showing a profit for the full year of about $36 million compared to a profit of $9 million for the full year in 2010.

Total premiums and fees continue to show some comparative growth in the business and were up about 4% over last year's fourth quarter. We would say that these gains continue to be attributable to the growth in market share that we have seen over the last few years. And with that respect, the estimated share for the third quarter of this year, which I think is the most recent we have firm numbers for, is about 12.5%, 12.7%, which is up about a full percentage point from year end 2010.

On the expense ratio side for the year or for the quarter, the Title Insurance clocked in, the expense ratio clocked in at 88.8% versus about 89.6% in the fourth quarter of 2010. And when you look at the year-to-year comparison for that business, 2011's expense ratio was 91.2% in comparison to the year-end ratio of 93%. And again, the claim ratio for the fourth quarter 2011 compared to the fourth quarter of 2010 was down about 50 basis points, but fundamentally flat in the year-to-year comparisons.

When we look back at the Title Insurance business for the year, we would say we continue to be pleased that it seems to be making good progress in spite of what we would all say continues to be a somewhat choppy recovery in the housing finance business.

So, with that, I will turn it back over to Al for him to wrap up.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So, there you have it by the pieces for the 3 major parts of our business, General, Mortgage Guaranty, and Title. And with respect to the consolidated picture, we think that the table on

Page 2 of the release brings it all together from both a revenue and bottom-line standpoint.

Last year, we generated quite a bit more realized investment gains as you've seen again in the release. And we did that in order to sop up some actual taxable losses we incurred on the disposition of the significant investment we had in the PMI Group, which as you know has got all sorts of difficulties in its Arizona state of domicile.

As you may have seen in the release, the consolidated cash flow was still negative last year though the amount was about two-thirds better than our experience in 2010, and all of the downdraft in this number emanated from the MI business for obvious reasons. Those reasons again being the excess of paid claims over premiums received, which as Chris indicated, are on a small downtrend. So, you've got an uptrend in paid losses, you've got a downtrend in premiums received and earned and that gives you the makings of a negative cash flow picture.

On the other hand, as we noted a few minutes ago, the General Insurance business reflected strongly positive cash flow as did the Title business incidentally. And so the bottom line here is that we have and we are adding liquidity in the businesses that we need to grow and that liquidity is also ensuring an ample flow of funds through the dividends that are upstreamed by the General Insurance companies in particular to the holding company.

Speaking of dividends, we have been able to continue, as you know, a steady dividend stream to our shareholders. I think its last year marked the 30th year of increased dividends consistently for Old Republic, and we also managed to slightly increase the annual rate, as I say, last year.

As we have reported on many occasions, we obviously review the dividend situation each year and each quarter and we do that in the context of the funds that are available and the capital needs of our General and Title Insurance businesses nowadays in particular and so far we have felt very comfortable in extending that long established dividend policy of ours.

The amount of funds that we are able to upstream to our holding company continues to be very ample to service our debt to pay dividends to shareholders, as I just said, and to meet the payroll and small incidental expenses that we have in our very lean corporate management structure at Old Republic. So, liquidity from all the standpoints has not been and is not expected to be an issue.

As part of last quarter's earnings release as well as, and more importantly, the commentary that we had following that earnings in the conference call as we are having now. We indicated and we outlined the possibility that our difficulties in the Mortgage Guaranty business could have a negative collateral impact on the liquidity of our publicly held holding company.

And we speculated at the time, that the continuing losses in our flagship Mortgage Guaranty insurance carrier would lead to an impairment of its capital and possibly as a result cause the insurance department of its North Carolina state of domicile to take control of the company.

In that circumstance, we said at the time that, that would represent an event of default, which under the terms of our corporate debt indentures would trigger an early call on the 2 major debt issues that we have at Old Republic, which currently aggregate $870 million.

We have 2 issues, as I say, one is for $316 million, which is due in May of this year and the other one $550 million that's a convertible debt issue also that we put out on the market in late February, early March of last year. And that's a 7 year issue, which would be due in 2018, but in either case an event of default would have potentially triggered an early call of those 2 issues.

At that time, at the end of the third quarter as I say, we also said that if we were pressed to come up with that kind of money, i.e. $870 million in round numbers, that we had most of it in the cash register in that we felt that the remainder, about $270 million, could be raised in the capital markets.

We also pointed out that we had been engaged with, in discussions with, the North Carolina Department of Insurance with the view toward achieving a run-off plan that would maintain the statutory viability of the flagship carrier and thus override the possibility of the change of control and the adverse consequence that this would have had, as I say, on our holding company liquidity and financial flexibility in so far as those 2 debt issues are concerned.

And Chris in his commentary before, alluded to what we had been doing with the Insurance Department in order to achieve a soft landing, which -- as opposed to having the company potentially be taken over by the insurance regulators. You may have seen that we issued 2 announcements that were filed with the SEC, one yesterday and the other one last Friday. Both of them are on Old Republic website. And in substance as - again as Chris said, the announcements indicate that the North Carolina Insurance Department has now issued an order that places the flagship carrier, Republic Mortgage Insurance Company under its supervision with a basic operating plan that achieves most of the objectives that we had been discussing with the department over several months.

So a key element of the plan, which incidentally still needs to be finalized as to various technical, operating, and administrative details, again, as Chris said, is for the flagship carrier to discount by 50% all claims paid over the next 12 months. And in this way, the remaining 50% that's unpaid will and can be classified as part of the statutory capital of the Republic Mortgage Insurance Company and in this way maintain the statutory solvency of the carrier. Again, in that this 50% unpaid liability appears as part of the capital structure of that company going forward as opposed to being treated as a liability.

Now from a GAAP standpoint, the GAAP accountants look through that and treat the liability as such, so that from a GAAP standpoint, the company would likely be - show a deficit in its capital account. But for what matters and that is the statutory basis upon which we run and must manage the business. This approach to maintaining the solvency of the company is a very acceptable solution to the problem that we were facing.

And for the time being, the threat of a possible event of default that would trigger the liquidity issue at the Old Republic Holding Company level has now been stayed. Again we do have some work to do to achieve some long-term permanence to the ordered supervision that’s now in place. But we are confident that things are moving in the right direction and that we will be able to resolve whatever issues come down the pike with the North Carolina insurance regulators.
We believe that what’s been agreed with the North Carolina Department, again as Chris indicated before, is truly in the best interest of both the policyholders and their beneficiaries of the Republic Mortgage Insurance Company. On the one hand it does that, on the other hand, it is a good solution for Old Republic, its debt holders and its shareholders as a group. So, we think it's a win-win situation that we have on our hands and that we’re looking forward to working it out in the best interest of all those folks.
That’s the extent of what we were anticipating talking about. So, as was stated at the beginning, we’ll move the conference call to the question-and-answer portion.

Question and Answer

Operator

[Operator Instructions] We will first go to Bill Laemmel from Divine Capital Markets

William Dunloy Laemmel
Divine Capital Markets LLC

What are we going to see, I take it when you report, though, in the quarters coming up that you'll report the loss and we'll just see it in benefits and claims, but actually what will happen -- and we'll see that in the numbers. And then what will actually happen is that part of it will get put in statutory reserves to be amortized at a later date. So, we are just going to see the normal numbers as they flow? Is that correct?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, that's correct. There are 2 different accounting treatments. There is the statutory treatment, which both Chris and I have talked about, and that is you pay half of the claims and the other half you put in reserve and that reserve is counted as part of statutory capital. Then when you move those numbers to a GAAP reporting basis, then the unpaid portion appears as part of the incurred losses and therefore affects the GAAP bottom line to company. It is not until there is a permanent resolution of our ownership of the Republic Mortgage Insurance Company, whereby there is a sale of that company or loss of control of one sort or another that you are able to eliminate it from the GAAP financial statements. So, it's basically 2 sets of books.

William Dunloy Laemmel
Divine Capital Markets LLC

Yes, but we are only going to see the one where the benefit and claim is just carried as it has been all along?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Correct, in the GAAP statements for their shareholders, that's correct.

Operator

We'll now go to Geoff Dancey with Cutler Capital.

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

I have a couple questions for you. First, could you explain in a little more detail what happens after one year of this situation with the mortgage insurer?

Christopher Stephen Nard
Former CEO & President of Republic Financial Indemnity Group, Inc.

Yes, Geoff, this is Chris. This order, as I mentioned, is fairly recent on the 19th and we have a meeting coming up next week with the department. So my assumption is the order is good for a year. During that process the department will continue to do analysis, look at the company, and at some point in time throughout that period, would then determine how the business runs off permanently. But we won't know that for sure until we get a little further into this process.

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

So, we should not expect to hear more about how this process will evolve for sometime then, it sounds like?

Christopher Stephen Nard
Former CEO & President of Republic Financial Indemnity Group, Inc.

Yes, the way this works is, the order was received on the 19th, and then there is a hearing scheduled at the department. I think it’s referred to as an informal hearing on the matter, towards the end of February on the 22, and that’s when the department gets together with the company and others to talk about the situation in the runoff of the business. I think it’s safe to say, we will have more clarity beyond that year after we work through that hearing at the end of next month. That’s the best way to think about it, Geoff.

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

Okay. And will the North Carolina Department of Insurance put out any information?

Christopher Stephen Nard
Former CEO & President of Republic Financial Indemnity Group, Inc.

I don’t know the answer to that Geoff. I think the order is posted on the RMIC website. So, you can see all of the information that the department has to-date to that effect.

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

Okay. And secondly, have you heard anything from any convert holders?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, because we have talked to some of them in terms of anticipating what could happen, but obviously, there has been no need to resolve anything since, as matters have turned out, nothing has happened. So, steady as she goes.

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

Okay and then a couple of questions just relating to some of these segments within the General Insurance subsidiary. Looking at the rising benefits in claim ratio in the workers comp…

Aldo Charles Zucaro
Chairman and Chief Executive Officer

You are looking at the statistic exhibit?

Geoffrey Kristopher Allan Dancey
Cutler Capital Management LLC

Exactly, yes. I'm just looking 2011 over '10 ratio up from 70.7% to 72.3%, I'm wondering where you think this stabilizes, and how you are thinking about that going forward?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, if I'm looking at the same thing that's on the website, we have year-to-date numbers there and we’ve got comparative numbers for prior years. And if you look at that, the comp business has bounced around over the years over the longest time between 70% and 75% loss ratio. And I think that's a good thing to expect, as to what it's going to next year or this year, I don't know. But it should be within that 70% to 75% range. Now, bear in mind also, and that's why we show the 3 lines of insurance combined, namely workers comp, general liability, and the commercial automobile together in total.

The reason we do that is that fundamentally, for most or for many of our customers, the 3 lines I have written together and really you should be looking at the composite experience of those 3 lines ganged together as the best indicator of what could happen. I think individual lines of the 3 may go -- may bounce up and down one way and the other, but when you put them altogether, you do get a better consistency, and that's the reality of the underwriting of the results from the underwriting process we follow pretty much throughout the system.

Operator

And we'll now go to Steven Charest from Divine Capital Markets.

Steven William Charest
Divine Capital Markets LLC, Research Division

Good, quick follow-up on Bill's call earlier. What kind of assumptions can we make on the impact to net investment income as a result of this 50-50 split as per the order?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, if you look at the investment income in the mortgage guaranty business, Steve, it's been going down, right, because you're still going to have payments going out. Now, it's true that at least from January 19 forward, the payments are going to be half of what they would otherwise be. However, again, as Chris mentioned before, there is a disparity between the timing of premium receipts and the timing of losses paid. And for the foreseeable future, we're seeing that it's fair to say that the losses are going to continue to exceed, even at the 50% level are going to continue to exceed the premiums received, and therefore, you're going to have negative cash flow, which is going to come out of the invested asset base and since we are not writing any new business. It stands to reason that, that invested asset base is going to come down.

Furthermore, we have done a lot of liquidation of the portfolio to make sure that we have plenty of liquidity in the Mortgage Guaranty Company so that if our expectations as to the timing of losses turned out to be wrong, the cash would be there to make the payments. So, the combination of all those things should lead to a downtrend, a continued and perhaps even accentuated downtrend in investment income in the Mortgage Guaranty business.

Now, having said all of that, when you come to right down to it, that business, the bottom line of that business, has never been driven by investment income. It’s all underwriting. Cash flow and mortgage guaranty is not as significant -- I mean the investment account, I should say, is not as significant as it is in the General Insurance business, where you are dealing with long-tail lines of insurance. So, that’s the best answer we can give you. That it’s a downward trend that you are going to see in investment income there.

Steven William Charest
Divine Capital Markets LLC, Research Division

So to summarize this option doesn’t accelerate it nor does it slow it and it doesn’t slow it either.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

It may slow it down a little bit because obviously you're getting 50% less outflow from claims, right. So it’s going to slowdown, but again the disparity between the premium account and even 50% of the paid claims is such that you are going to eat into the invested asset base.

Operator

And now we will go to Jim Ryan from Morningstar.

Jim Ryan
Morningstar Inc., Research Division

Al could you discuss the dividend capacity of the insurance subsidiaries of the holding company specifically based upon 2011 results, how much you can dividend up. Your current cash position at the holding company again just kind of a generalized discussion on that please?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Right. Well, as you know with the dividends to our shareholders amount to about $170 million annually and most of the money historically at Old Republic in normal times has come from our General Insurance business, and that business as I said earlier, has got ample capacity. Meaning we have got more than enough capital to carry the volume that we are writing nowadays. The volume that we expect over the next couple of years certainly enough capital in terms of its leverage ratio vis-à-vis the loss reserve exposure that’s on the right side of the balance sheet.

So, the long and short of it is that we have got enough capital at the General Insurance business to continue the kind of dividend payout that you see, when you look at our 10-K. There is a footnote in the 2010 10-K and you will see one in the 2011 10-K and that footnote is going to indicate that we have got X dollars of dividend that can be upstreamed to the holding company without regulatory approval, which means it’s free and clear, unless some totally extraordinary events should occur down the road. We have the ability to move that money. And it is much more than the amount needed for the dividends to our shareholders.

Now on top of that the holding company has got a need to pay the interest on it’s primarily on its two convertible debentures. One of them the $316 million that comes due in May of this year has got about 9% all-in cost in it and so that’s a quick calculation that’s $27 million. We have got the money in place to pay that off come May and you have got to remember that the money we have in place is invested short-term and now a days as you know, we are getting 0.5 or 0.75 of a point at best on short-term money.

So, that means that, that entire $27 million will fall to the bottom line. And that will leave therefore then the $550 million at around 4% all-in, which is, what, $22 million, right? So, the cash needs of the holding company starting in May, if anything, are going to be less than they were throughout 2011. But all of that to say again, that the amount of dividend that we can pay, and they are primarily out of the General Insurance group, are far in excess of what we need for those needs that I've just cited. Now, finally the Title Insurance business is beginning to percolate from a bottom-line standpoint and that business is in a position to also pay interest to the holding company on various intra-system debt that we have and that's also another source of cash to the holding company.

Jim Ryan
Morningstar Inc., Research Division

Okay. Would you expect though - if I recall it was $306 million was your dividend capability based on 2010, do you know if that would be higher or lower for 2011?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I'm going to guess, if you don't hold me to this, that it should be in the $260 million, $270 million at the end of 2011.

Jim Ryan
Morningstar Inc., Research Division

Yes, that’s what I wanted to know.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I beg your pardon.

Jim Ryan

Morningstar Inc., Research Division

That’s exactly what I wanted to know.

Operator

There are no further questions. I’ll turn the conference back over to management for any additional or closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. As always, we appreciate your interest in listening to our commentary and your continued interest in Old Republic's business and the securities that you hold or manage on behalf of your customers. And we look forward to speaking with you again at the end of first quarter of 2012. So, we’ll bid you a good afternoon or if you are in Hawaii good morning and a bientot, have a good day.

Operator
This concludes today’s presentation. Thank you for your participation.