S&P Global
Market Intelligence

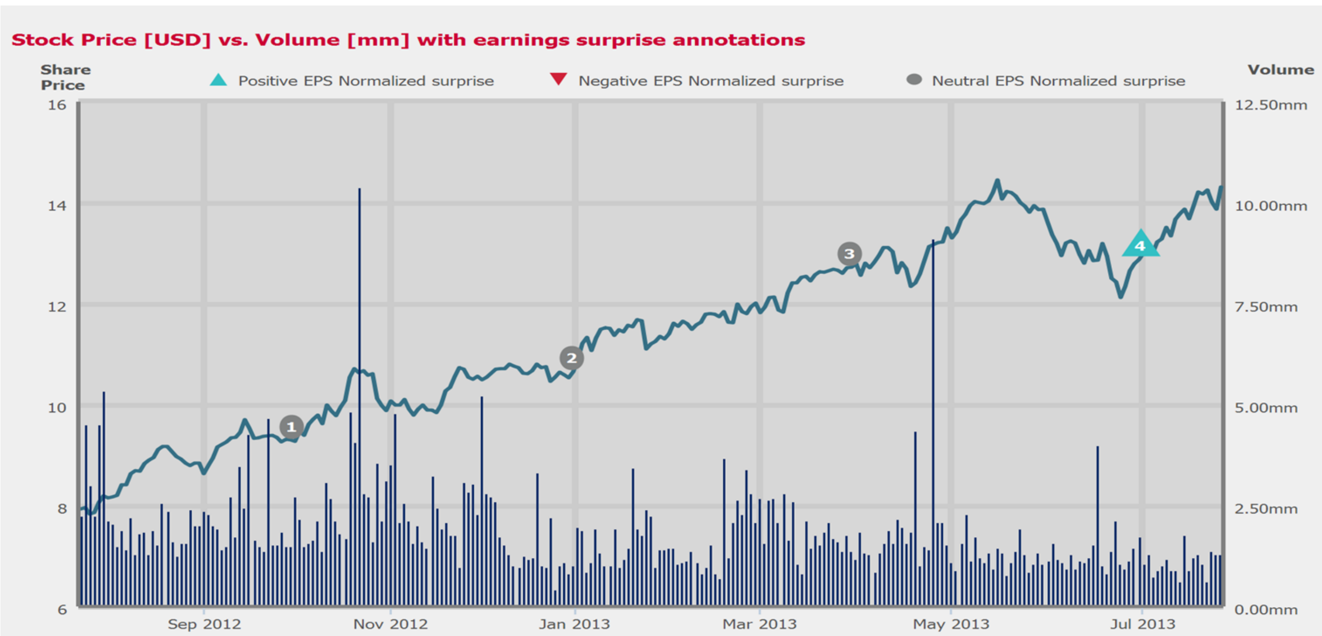
Old Republic International Corporation
NYSE:ORI
FQ3 2013 Earnings Call Transcripts

Thursday, October 24, 2013 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.11	0.35	▲218.18	0.07	0.80	1.00
Revenue (mm)	1400.00	1379.50	▲(1.46 %)	1334.00	5130.00	5235.50

Currency: USD
Consensus as of Oct-07-2013 11:21 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	(0.03)	(0.11)	NM
FQ4 2012	(0.05)	(0.09)	NM
FQ1 2013	(0.04)	0.20	NM
FQ2 2013	0.02	0.37	▲1750.00 %

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Karl William Mueller
Senior VP & CFO

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

Richard Scott Rager
Executive Vice Chairman

Scott Eckstein
Director of Account Services

ANALYSTS

John Deysher

Ronald David Bobman
Capital Returns Management, LLC

Stephen Mead
Anchor Capital Advisors, LLC

Presentation

Operator

Good day everyone and welcome to the Old Republic International Third Quarter 2013 Earnings Conference Call. Just a reminder, today's call is being recorded. [Operator Instructions]

And now it is my pleasure to turn the conference over to Scott Eckstein with MWW Group. Please go ahead, sir.

Scott Eckstein
Director of Account Services

Thank you, operator. Good afternoon and thank you for joining us today for Old Republic's conference call to discuss third quarter 2013 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 October 24, 2013. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Al Zucaro, Chairman and Chief Executive Officer; Scott Rager, President and Chief Operating Officer; Karl Mueller, Senior Vice President and Chief Financial Officer; and Rande Yeager, Chairman and Chief Executive Officer of Old Republic Title Insurance Companies.

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

Aldo Charles Zucaro
Chairman & CEO

Thank you, and good afternoon to everyone. As we've done in recent quarters there are 4 of us, as Scott just mentioned, that will participate in this call. And the way we'll approach it is I'll start the ball rolling, and then we'll turn it over to Scott who will speak to our General Insurance business, then to Rande for our Title business, and then to Karl who will comment on significant financial matters, and then I'll probably have a few more comments before we turn it to the question-and-answer period.

So to begin this conversation I'll start by addressing the overall picture of the company and the run-off business that's having a very large impact on this year's earnings report. So let me begin by saying that in the third quarter, which incidentally represents the third consecutive quarterly postings of profitability since the onset of the Great Recession in mid 2007 insofar as we are concerned, that the earnings of the company are obviously benefiting to a great degree as a result of the changes that are occurring in the mortgage guaranty run-off and the CCI run-off. Those are the big drivers in the -- both the third quarter and the year-to-date period. And of course, the turnaround is represented by the complete flip-flop in the profitability of the RFIG run-off. And of course, the very positive earnings momentum that's occurring in our Title business as it grows by leaps and bounds. If you follow Old Republic, that segment of ours, you will see in the last couple of years or so, has really turned itself around.

As I just said, Rande will cover the Title segment in a few moments. So I'll start with -- by focusing on the run-off book which we address both in this morning's release covering the quarterly earnings, as well as in the separate news bulletin that I'm sure all of you have seen by now, which speaks to our current plans relative to recapitalizing the mortgage guaranty line and its ultimate separation from the Old Republic holding company system as we currently expect and as we currently assume will take place as the company gets recapitalized.

With regard to the MI, mortgage guaranty run-off, we've been experiencing a very steady decline in loss provisions that apply to previously reported defaults. And that has occurred since last year's fourth quarter. We had a little bit of a reserve release, so to speak, in the fourth quarter of last year and then that has accelerated in each of the first 3 quarters of this year.

And the significant lower claim provisions that you see are mostly caused by the rate at which previously reported defaults are curing themselves or being closed out and thus eliminated from the inventory of open claims without payment delays.

Now anyone that's paying attention to publicly available housing and mortgage lending and employment trends can readily see that all of these factors in the economy at large are moving in a generally favorable direction insofar as mortgage-related exposures are concerned. So it stands to reason that we should be experiencing these positive trends in claim costs in our own mortgage guaranty business. We should also note I think that we are still maintaining relatively higher average claim reserves for each loan in default, that the risk in force on the business is down almost, what, close to 19% year-over-year and that the traditional primary default rate is down by almost 12% compared to the year before.

So the purpose in mentioning these statistics is that they do shed some additional light on the claim cost trends that we've been experiencing so far this year. And moreover, it's also worth noting that our better claim performance is not unique to us. The MI competitors we are aware of and the 2 GSEs, Fannie Mae and Freddie Mac, as you know, have also been posting better results based in large part on lower pressures from the claim side of the equation, or so it appears to us.

In addition to the down trend in claim costs, we are also operating the run-off at a very low expense ratio as you see in the little table that's included in the news release this morning. And this is even so in light of the continued drop in the earned premium base year-over-year. And all the credit really for managing the mortgage guaranty run-off, as economically and as efficiently as it's reflected by these low expense ratio, goes to a great group of professionals who have remained fully committed to manage both the run-off as well as potentially, as we speak now, a planned reactivated operation in a very competitive, cost efficient manner. We see ourselves very fortunate in having these colleagues on our side in what has been a very tough business climate for mortgage guaranty in the last 5 or 6 years now.

Of course the $64 question at this juncture is whether these very favorable trends in mortgage guaranty claim costs can be expected to continue in the near term. We, as usual, don't have a very clear cut answer to this, but we do think it's more likely than not that it will be so for the foreseeable future. All the elements that affect claim costs, as I indicated before, are pointing in the right direction and it stands to reason that, while we're still going to have variability among quarters, that the trend is definitely going to be down, insofar as claim costs insofar as we can see.

Now the other part of the run-off business relates to the CCI, what we refer to as the CCI coverage, which is the Consumer Credit Indemnity portion of the run-off. And the operating statistics that we have reported and you see those on Page 5 of this morning's release, those show a similarly substantial reduction of year-over-year claim costs as well as a very low expense ratio. And while the CCI coverage is a much smaller portion of the overall RFIG run-off, it is affected by the same positive housing and general economic factors that pertain to the MI line.

So while CCI claim costs as such are in a downtrend, the line nonetheless remains burdened in our case by relatively high litigation costs, which we currently believe are probably going to persist for a while longer. These are costs that unfortunately we need to bear because they pertain to claims which need to be resolved in a fashion that's more appropriate to the nature of the coverage that we provided. And it relates obviously to, in our case, to paid claims that are now believed to have been ineligible to begin with for payment, or alternatively to defend the denial of other filed claims all of which are tainted in one fashion or another by systematically fraudulent lending activities.

In the final analysis though and leaving aside all this ongoing litigation that we have in the CCI line in particular, we think that both of these coverages, mortgage guarantee and CCI claim costs, should continue in a downtrend. Even though it may not be even-Steven every quarter, the downtrend should continue to reflect itself in our financials. And we also think that the MI line in particular is more likely than not to remain profitable or, the least, incur much smaller operating losses than had been the case through 2012.

So having highlighted the results of the run-off segment, I'd like to spend yet a few more minutes talking about the other release that we sent out this morning. And that's the release that pertains to the future of the mortgage guarantee line. Now as anyone familiar with our company is aware, we have been in the mortgage guarantee business since 1980. It's been a wonderful business for us. And we've nurtured it from a little acorn, as I like to say, to a very good sized operation, which to the point where in the early parts, early years of this new century produced at times anywhere between 40% and almost 50% of Old Republic's bottom-line in any one year.

And then, of course, with the advent of the Great Recession beginning in 2007, the bottom fell out for us and for that matter everyone else having anything to do with housing finance. We obviously incurred substantial losses in RMIC through year end 2012. And around mid-year 2011, the capital account that had been dedicated to this business could no longer support the risk in force at the time and let alone support any continuing underwriting of new insurance policies, which we ultimately stopped producing in August of 2011.

Now, at that point in time based on the operating models we were looking at, we estimated that it would take anywhere between $400 million and $500 million of new capital to make a go of that business, again based on what we knew at the time. Now, in any event, we did not have that kind of spare change then, nor do we have it now, I might add. So, the decision was made to put the MI business into a so called run-off operating mode. As we've explained in the past, in this manner the business has been performing all the usual activities of a going concern, except of course since 2011 except for the production of new policies.

In the meantime, the entire infrastructure of the organization has been kept in place. And as a result, the business can be reactivated for new production very quickly we believe and with relative ease. Again I go back to the cadre of people that we have in that operation in Winston-Salem. And they are well equipped to carry the ball forward in a newly recapitalized company. So, that's where the business has been and it currently remains in its current -- in its run-off state, I should say, of operations and it's been operating let's say since August of 2011, thereafter under the supervision of its key insurance regulator namely the North Carolina Department of Insurance.

By placing the business in run-off it did not signify that Old Republic had lost interest in it as a necessary financial indemnity provider that we -- as I just said it all came down to money that we did not have. So, in the spring of last year we designed a business plan, the crux of which was to spin off the RMIC mortgage guarantee business to Old Republic's shareholders. Since that a separate standalone publicly-owned RMIC could raise capital on its own and once again actively participate in the mortgage guarantee business and thus be, with new capital, be a viable competitor as it had been before the business hit the skids in 2007.

Well and good, we think but the plan did not sit well with the major RMIC stakeholders who were of the view that Old Republic's continued ownership of the business, even in a run-off mode, would offer certain consolidation benefits which would be lost in a standalone RMIC, which incidentally could also be unable to raise new capital for all we know. So, we listened to these concerns and ultimately decided to put the run-off idea, or the spin off idea I should say, back on the shelf.

So, I'll fast forward to 2012, late 2012 and the early part of this year when the capital markets opened up to new mortgage guarantee entrants as well as providing capital to existing players who had also lost a great deal of money and needed additional capital to both make up the losses the shortfall had created and refill their cash register so to speak to support new business production.

These are the circumstances which led us in the past several months, I guess starting in spring time of this year, to figure out an alternative recapitalization approach for RMIC given the fact that Old Republic still does not have the kind of cash that's needed to at once replenish capital for that company and establish it as a viable player. So that's the reason we then ultimately put together a plan, which is described in this morning's special news release. And we think we've come back with what we think is a very good sound approach to reposition and to reactivate RMIC and to achieve the key objectives that are summarized in the 4 bullet points that you see there on the bottom of Page 1 and the top of Page 2.

As we speak, we're reasonably confident that the key RMIC stakeholders will see their interests very well aligned with those objectives. So that, in a nutshell, is how we got from where we were and at the end of 2007 with a business proposition that was losing money because of the issues that everyone is familiar with related to the Great Recession. And having run-off the business so far very successfully, very efficiently on a cost basis and providing all the ongoing services to all the lenders who got our mortgage guarantee policies over the years, and how we now see ourselves being able with the more open capital markets to resurrect RMIC, which we believe is deserving of being back in the business.

So, without much ado, I guess I will turn it over to you, Scott, now to talk about our General Insurance business.

Richard Scott Rager
Executive Vice Chairman

Okay. Thanks Al. Good afternoon. For purposes of these discussions, I'll be excluding the CCI run-off implications on our numbers in my comments. Through third quarter year-over-year, we have seen a 7.5% growth in net premiums earned. As we have said in the release, aviation, construction, energy, home warranty, trucking and large account risk management provided the main impetus for that growth. As a specialized underwriter provider in our several markets, the competitive environments vary as to each. Growth is obviously [ph] -- have components of new business, organic growth of rate basis within the existing book and what rate increases are implemented across the book on average and in total.

Those dynamics in and of themselves too vary by operation. But on an overall basis though we can indicate that rates within our book and the industry in general are trending higher. Perhaps most pronounced and consistently as to workers' compensation. Again this may vary from operation to operation within the group depending on type and classes of accounts served and experience within an operation's specific book. But as a general rule, the rates are trending upward.

We're seeing a growth in the number of submissions as well for us to consider in our General Insurance Group. In some instances, those increased opportunities are presented just as the result of competitors' refocus or their re-underwriting of a given segment of business within the industries we serve. They might be balancing their books on a strategic basis or internal reorganizations that impact special re-underwriting emphasis.

We were also seeing evidence of our efforts over the last couple of years to grow and enhance our distribution relationships and the resources of over -- at several of our specific operations. Consumer retention levels, in some instances negatively impacted by the recent recession, are now trending upward to our typical historical levels as to each such operation as well.

Although slow, the economic recovery is also providing organic growth within the overall book, particularly as to increased payrolls with respect to workers' compensation writings and the mileage basis within the motor carrier transportation book.

The group loss ratio for 3 quarters of 73.5%, as contrasted to 72.2% through third quarter of 2012, was up a tick but as rate enhancements take hold we see those ratios trending more towards historic levels near 70 in the months of come and into 2014.

The expense ratio of 23.9% is excellent and our composite ratio of 97.4% through 3Q year-to-date is improved over the 98.3% for the like term in 2012. Our preliminary view of year end 2013 would be results much akin to those we see today. We believe early indications for the General Insurance Group for 2014 will be much has we have seen in 2013, with some degree of cautious optimism that we should likely see continued growth opportunities especially if the economic scene would provide more sustained impetus.

So, having highlighted all these matters, I'll turn the phone over to Rande Yeager for additional comments on the Title segment.

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

Thanks, Scott. It’s my privilege to report, and once again it’s great to be able to make that report and let you know that the Title Group blew the socks off our previous year's quarterly results with a profit of $36.6 million. I have to say that’s saying a lot since last year’s third quarter results were very good coming at $21.7 million. By almost every measure, this year’s third quarter beat last year’s. And I will comment on just few of those highlights starting with agency premiums. And they were up $90.1 million or 29.6% over what we had last year.

Direct premiums and fees were pretty flat, down about 0.5% mainly attributable to what’s being going on with the refinance markets and in mortgage originations. But overall, those 2 components added up to an increase in revenue of 20% over last year’s third quarter.

Claims ratio continued to decline; it was down to 7% from 7.3% in last year’s third quarter. And the expense ratio declined from -- to 87% from 88.9% last year. As -- talking a little bit about the market, interest rates of course, as I think everyone knows, had fluctuated to some extent over the past few months, but primarily they’ve gone up. Refinance activity has slowed but purchase money transaction seem to be more than making up for the lost revenue on the refinance side of the business which is -- it has been good for us.

I believe that our results, if you look at the book of business and where we’ve gone, where we’ve come from over the past few years, you can see that that we’ve gained a lot of market share and we’re continuing to gain a lot of market share. At the group, we’re all optimistic about our business. There is a lot of exciting things happening within our company and certainly within the industry and not just the title industry but the mortgage industry, and everyone at this company believes that the best is yet to come. And that’s the report on the title company and it’s a good one.

And at this point, I'm going to turn the phone over to Karl Mueller.

Karl William Mueller
Senior VP & CFO

Okay. Thanks, Rande. In this morning’s earnings release, we reported total assets of slightly north of $16.5 billion. I would say overall the composition of the balance sheet remains relatively unchanged from prior quarters as well as year end 2012. Our investment portfolio continues to grow, resulting from the investment of positive operating cash flows and overall increase in fair value of our portfolio.

From a reserving perspective, the year end 2012 consolidated loss reserves have continued to develop favorably through the first 9 months of 2013. And similar to comments I’ve made in prior periods, our general insurance reserves have trended favorably by 1 or 2 percentage points. The title insurance reserves have developed throughout the year pretty much in line with our original estimates. And as we noted in this morning’s news release and as Al commented on earlier, the prior year RFIG run-off segment reserves have developed favorably this year by comparison to the deficiencies that we reported for the same periods in 2012.

Moving on then, we ended the quarter with a debt-to-equity ratio of 15.3% and a debt-to-total capitalization ratio of 13.3%, both of which are down slightly from where they’ve been for the past few quarters. In the separate news release this morning, we announced the recapitalization plan that Al summarized earlier. With the successful completion of this plan, Old Republic will no longer have a controlling interest in the mortgage operation and will thus deconsolidate the MI subsidiaries at that time. That circumstance would certainly resolve any potential risk of an accelerated maturity of our convertible debt securities under the provisions of ORI’s convertible debt instrument.

Regardless, in its current run-off state, RMIC is shrinking in significance relative to the consolidated company. It is altogether possible that RMIC will no longer meet the SEC criteria to be considered a significant subsidiary as of year end 2013. Either way, we believe this debt acceleration risk is largely mitigated as we sit here today. Shareholders' equity as of September 30 is right at $3.7 billion or $14.44 per share, which is an increase of $0.49 per share from the book value we reported at June 30.

Operating earnings per share in excess of the ORI shareholder dividend added $0.21 and $0.46 to the book value for both the quarter and the 9 months of 2013. And all the other changes besides earnings and dividends are summarized on Page 7 of the news release.

From a parent company liquidity perspective, we ended September with approximately $279 million of cash in highly liquid securities that are readily available to the ORI holding company. We continue to believe that the sources of cash to the holding company are adequate to meet our operating needs for the foreseeable future.

And with that, I think that summarizes the highlights of our current financial situation and I'll turn the phone back over to Al for any closing comments before we move to the Q&A portion of the call.

Aldo Charles Zucaro
Chairman & CEO
Okay. Well, there you have it. Bottom-line we've got a nice story this quarter, this year-to-date. I think we have, as a company we have finally turned the corner and we are looking forward to reaching new heights now as a more focused company that's not detracted by events of the past several years, which have tested many companies including ourselves. So, we are very optimistic as we look ahead from this point forward. So as we said, as Karl just said, let's open this thing up to questions and answers.

Question and Answer

Operator

[Operator Instructions] ladies and gentlemen, we'll move first to John Deysher with Pinnacle.

John Deysher

A question on the amount of capital. I think your release said you're going to contribute up to $50 million of new capital, but then the bullet point, first bullet point says successfully resolving getting to a full settlement of accumulated deferred claim payments. I guess these are the IOUs that have been accumulating and I'm just curious what's the amount in that account that has to be made whole in addition to the $50 million of new capital?

Aldo Charles Zucaro
Chairman & CEO

Well, the amount that has to be made whole as you -- to use your expression, is already provided for. I mean, we've got the cash in hand to pay those claims. So what we're talking about is pure capital, and at the end of September you have the number?

Karl William Mueller
Senior VP & CFO

It's right at $550 million.

Aldo Charles Zucaro
Chairman & CEO

And then what is the GAAP capital that we have to make up for, $65 million something like that.? So the amount of capital that has to be made up, that's got very little to do from a GAAP standpoint, right, with the EPO or the IOUs as you put it.

John Deysher

Okay. So that's taken care of. All you need is the $50 million of new capital. And that's going to be sourced internally, externally or both?

Aldo Charles Zucaro
Chairman & CEO

No, the $50 million is just Old Republic's input to what is going to be raised. We're going to be raising much more than that, because not only do you have to make up the statutory capital, as we said before, and GAAP capital, but you have to have an additional amount of capital to get back into the business. There are minimum capital requirements, as you know, that are imposed in particular by the GSEs, Fannie Mae and Freddie Mac. And there is also talk in the industry about the capital requirements that will be imposed going forward on mortgage guaranty companies, running as well as 15:1, meaning risk-to-capital ratio of 15:1, versus the 25:1, which was the maximum that was allowed until the business fell out of bed.

So the amount of capital that's needed is much larger if you're going to write more -- new business in particular because not only you have to carry what's currently in force, which in our case is a declining number relative to the run-off, but then you have to provide capital to support any new business production that you put on the books. So the -- look at the $50 million in the context of the other statement that's made in the news release and that is that as a result of this capital raise we would expect to have less than a 10% equity interest in the ongoing recapitalized RMIC operation.

John Deysher

I see. So ballpark how much capital do you think you will need to raise in total?

Aldo Charles Zucaro
Chairman & CEO

Well, we are not in a position to do that -- to say that right now. We're just about, in the next week or 2, going to market to size it up. So we can't put a number on that yet.

John Deysher

Okay, fair enough. And then finally, what's the timetable on this?

Aldo Charles Zucaro
Chairman & CEO

Well, we're hopeful of getting this done by year end and get all the necessary approvals. As we said in the release it's one thing to raise the money and so forth, it's quite another, then, to get the 3 key players here, who are basically regulatory authorities and the persons of the North Carolina Insurance Department, in our case, and Fannie Mae and Freddie Mac. And they have to do their reviews, basically start from scratch as a new entrant, so to speak, and that takes time. But we are hopeful that we could both raise the capital by December 31, pay off the IOUs, to use your expression for repayment obligations, and then proceed to get into business hopefully early in 2014.

Operator

And moving on, we'll go next to Stephen Mead at Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

Just continuing on with the mortgage insurance business, do you have a sense of kind of what business you would write relative to what you did before and do you have enough clarity in terms of what the market will look like relative to Fannie Mae and Freddie Mac, their plans. I mean it still seems fairly fluid, and I didn't know whether you have a market that you actually know that you can write in and that you get the kinds of returns to attract that incremental capital?

Aldo Charles Zucaro
Chairman & CEO

Yes, well the -- I think there are 2 parts to your question, Steve. The first part is the idea of the fluidity relative to what Fannie Mae's and Freddie Mac's ultimate requirements are going to be in terms of the underwriting standards that they will expect companies, MI companies to observe. In terms of the amount of capital that will be required, again I refer to the preceding discussion we just had relative to this risk-to-capital ratio or any other consideration they may come up with. So that is still up in the air. But we think that -- we believe that RMIC, so long as the rules of the road are the same for all the MI players, there is no reason to expect that RMIC would not be in a position to observe those rules and adhere to them and meet the requirements.

With respect to the quality of the business, the second part of your question, as you know, I'm sure that the markets are still relatively tight in terms of underwriting standards; what lenders expect by way of down payments, what they expect in terms of corroboration of a borrower's ability to repay and so forth. So it's like you write your best business when it comes to any kind of financial guarantees or you buy your best stocks on Wall Street when blood is running on the Street, right. And we think that markets are not as tight today in mortgages as they were let's say 1 year or 1.5 years ago, but they are still very tight or reasonably tight. And, therefore, the underwriting standards are going to be sufficiently good as to enable us to return, and the rest of the mortgage guaranty industry to return, a good percentage on the capital that's invested. But again the one question that's up in the air is what the final rules of the road are going to be as to how much capital is going to be required by the GSEs in particular.

Stephen Mead
Anchor Capital Advisors, LLC

Okay. If I could follow-on, just as you go forward with, in a sense, the earnings picture has been repaired somewhat. So you are allocating capital to the MI business, but I was trying to get a sense of your feeling about sort of the dividend and the return of, say, to investors at this point.

Aldo Charles Zucaro
Chairman & CEO

Would you take that Karl, in terms of the paying capacity and all that.

Karl William Mueller
Senior VP & CFO

Well, Steve, if I understand your question correctly maybe it has to do with concern about cash flows to the parent company, and our ability...

Stephen Mead
Anchor Capital Advisors, LLC

And also in terms of dividend policy going forward, I think the capital markets really are rewarding companies that have a sustained sort of dividend growth and at one point you had an excellent reputation in terms of your dividend policy and stuff, and I didn’t know sort of where we are in that process of getting back to a little bit more of a dividend growth kind of picture.

Aldo Charles Zucaro
Chairman & CEO

Well I still think Steve, and everybody, that Old Republic has got an excellent reputation when it comes to dividend policy and the stability of the dividend. We have paid a dividend, as you may know from the statistics we put out, without exception every year since1942. And in the last, what, 33 years we’ve increased the dividend every year.

Now it’s true that in the last 3 or 4 years we’ve only increased the annual rate by effectively a $0.01 and that has been in recognition that the overall earnings of the company. Even though the sources of the dividends to the holding company, which were basically the General Insurance Group, were very stable we did not want to create undue pressure on that business because it is our flagship business and it is the business that provides the greatest stability to our bottom line. So that’s why we’ve increased the dividend by just $0.01 in the last 4 years I think it is.

Going forward, certainly the title business is going to be back on the saddle and should be able to provide its historically high cash flows to the parent company. As you know all the reasons we have the title business, and the reason it fits well with the overall mix of business at Old Republic, is that it’s not as capital intensive. A little more volatile perhaps, a lot more volatile, but it’s not as capital intensive as the general insurance business, let alone the mortgage guaranty business.

And then the general insurance business to the extent that we can look forward, and we think we can, to reasonable stability on the underwriting account, we think we can manage 10%, 12%, 15% growth on the revenue side of the general insurance business without increasing our capital requirements of the business. So that means that the capital that's there now should be able to sustain, one, growth in the company both on a premium as well as a reserve standpoint and, number 2, sustain a gradually increasing dividend flow.

Operator

And we’ll go next to Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Two unrelated questions. One is, I'll put the mortgage insurance question behind me, I’m wondering if in some respects you sort of misread the opportunity for the mortgage insurance recapitalization. And what I mean by that is, if it requires more capital than third parties are willing to supplement your 50 with, or regulators require more residual support from ORI, whether you are prepared to sort of in essence do more than 50 or provide some sort of contingent or residual support?

Aldo Charles Zucaro
Chairman & CEO

No, the only thing we are going to do is to provide a maximum of $50 million toward the total capital that will be required. We will, as a result of that, have a less than 10% equity in the newly recapitalized RMI, which will have to stand on its own just like any other mortgage guaranty company in this country. There is no cross support, capital support involved, particularly in our case if, as we expect, RMIC will be able to raise capital and in fact operate independently of Old Republic.

Ronald David Bobman
Capital Returns Management, LLC

Okay. Thanks for addressing that. Then I had another question for the general insurance area, and in particular workers' comp, it's been a problem line for 2 public semi-specialists. And I was just wondering if you could comment about the workers' comp reserves that you maintain and where they fit relative to the actuaries reserve estimates for that line?

Richard Scott Rager
Executive Vice Chairman

In terms of the reserving practices that we follow here Old Republic, we follow what we call the loss-picking mentality, whereby we look at what the actuaries may say with respect to its experience and development and just really consider that as one of the tools we push to look at it. But then from the accountings perspective, the accounting department is in charge of establishing the ultimate liabilities with respect to reserves with any given year based on the premiums written under in that year.

Aldo Charles Zucaro
Chairman & CEO

So we feel comfortable.

Richard Scott Rager
Executive Vice Chairman

Yes, we've had some issues with respect to medical inflation for the past few years impacting development in -- of loan to medical side of the workers' compensation reserves but we continue to address that each quarter and look at it and continue to become more comfortable with it, understanding that we do review all those reports in-depth each quarter.

Ronald David Bobman
Capital Returns Management, LLC

Okay. And am I right in recalling that your workers' comp book includes one segment where it's sort of very high deductible, it has a big sort of SIR element for the policyholder and then you have sort of a more traditional indemnity book?

Richard Scott Rager
Executive Vice Chairman

Yes. We have the Old Republic risk management operation, as well as a segment of the PMA operation, writes more loss-sensitive business than rate-sensitive business in that respect. So there is more cost sharing in terms of loss sharing on behalf of the clients and customers than there would be in a typical middle market arena where you might have guaranteed one, guaranteed cost dollar one exposure [ph].

Aldo Charles Zucaro
Chairman & CEO

Over the years the number bounces around but anywhere between 40%, and 50% to 55%, let's say, of our comp business is written on a so-called loss sensitive basis so that the assureds bear some exposure, sometimes depending on the size of the company a significant exposure, which creates what we happen to view as a good partnership arrangement with our assureds. So to some degree whenever you've got inflation, whether it would be on medical air cost or the indemnity portion as such, there is some level of participation by the assured, which will serve to mitigate to some degree the nature or the amount of claims that we get.

Operator

And it appears I have no further questions at this time. Mr. Zucaro, I'd like to turn things back over to you, sir, for any additional or concluding remarks.

Aldo Charles Zucaro
Chairman & CEO

Well I don't really have any. As always we appreciate everybody's attendance and look forward to the next quarter which will be the end of the year. And as I said, we expect this year to be a good one after a few very treacherous years for Old Republic. So again, thank you for your interest and we look forward to speaking with you again in a few months. You all have a good afternoon, good morning wherever you may be.

Operator
And once again, ladies and gentlemen, that does conclude our conference for today. Once again, thank you for joining us.