

REPORT ON EXAMINATION

OF THE

STEWART TITLE INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JANUARY 20, 2017

EXAMINER

RAJENDRA SUNDER

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of Examination	2
2.	Description of Company	3
	A. Corporate governance	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	8
	E. Significant operating ratios	8
3.	Financial Statements	9
	A. Balance sheet	9
	B. Statement of income	11
	C. Capital and surplus account	12
4.	Known Claims Reserve and Statutory Premium Reserve	13
5.	Compliance with prior report on examination	14
6.	Summary of comments and recommendations	15



Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 16, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31409 dated January 6, 2016, attached hereto, I have made an examination into the condition and affairs of Stewart Title Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Stewart Title Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 300 East 42nd Street, New York, NY 10017.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a single state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the two-year period from January 1, 2014 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Texas, which was the lead state of the Stewart Title Group. The examination was performed concurrently with the examination of the Stewart Title Guaranty Company. No other state participated in this examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles and annual statement instructions.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Financial statement presentation
- Loss review and analysis
- Accounts and records
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the provisions of Article 64 of the New York Insurance Law on October 26, 1987. It became licensed on December 2, 1987 and commenced business on the same date.

On February 3, 2006, the Company acquired a 100% interest in Monroe Title Insurance Corporation (“Monroe Title”). On May 12, 2009, the Company merged with Monroe Title, with the Company as the surviving entity.

Capital paid in is \$1,100,000, consisting of 100,000 shares of Class A common stock with a par value of \$2 per share and 90,000 shares of Class B common stock with a par value of \$10 per share. Gross paid in and contributed surplus increased by \$54,826 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2014	Beginning gross paid in and contributed surplus	\$23,770,650
2014	Surplus contribution	\$ 7,668
2015	Surplus contribution	<u>47,158</u>
	Total surplus contributions	<u>54,826</u>
2015	Ending gross paid in and contributed surplus	<u>\$23,825,476</u>

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members. The board meets four times during each calendar year. At December 31, 2015, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patrick Beall Houston, TX	Group President, Agency Operations, Stewart Title Guaranty Company
Glenn Clements Houston, TX	Group President, Direct Operations, Stewart Title Guaranty Company
Julie A. Curlen New York, NY	President, Stewart Title Insurance Company
John L. Killea Houston, TX	Chief Legal Officer, SISCO, Ultimate Parent of the Company
Matthew J. Leeds New York, NY	Partner, Ganfer & Shore, LLP
Steven Lessack Cazenovia, NY	Chief Executive Officer, Stewart Title Limited
Richard A. Nardi New York, NY	Partner, Loeb & Loeb

A review of the minutes of the board of directors' meetings held during the examination period indicated that meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Julie A. Curlen	President
Jackie Denise Carraux	Secretary
David Y. Stutts	Treasurer
Joseph A. Berryman	Chief Financial Officer
John A. Frates	Executive Vice-President

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in New York only.

As of the examination date, the Company was authorized to transact title insurance as defined in Section 1113(a)(18) of the New York Insurance Law.

Based upon the line of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Article 64 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,100,000.

The following schedule shows the direct premiums written by the Company during the examination period:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2014	\$223,557,129
2015	\$234,139,054

C. Reinsurance

Assumed

Assumed reinsurance accounted for .002% of the Company's gross premium written at December 31, 2015. During the period covered by this examination, the Company's assumed reinsurance business has decreased since the last examination. The Company's assumed reinsurance program consists mainly of title coverage assumed on a facultative basis. The Company utilizes reinsurance accounting as set forth in SSAP No. 62R.

Ceded

The Company has a facultative arrangement in place with its direct parent, Stewart Title Guaranty Company, which allows the Company to cede on a treaty basis all or a part of its excess loss risk, on direct written policies or reinsurance assumed by the Company which involve excess loss risks. As of December 31, 2015, excess loss risk was defined as exposures over \$20 million. A minimal amount of reinsurance is also ceded to unaffiliated companies on a facultative basis.

It should be noted that there have been no instances of the Company paying a loss which triggered making a claim on its ceded facultative contracts. The Company accordingly has not reported any reinsurance recoverable on paid losses or reflected any reinsurance recoverable in its known claim reserves.

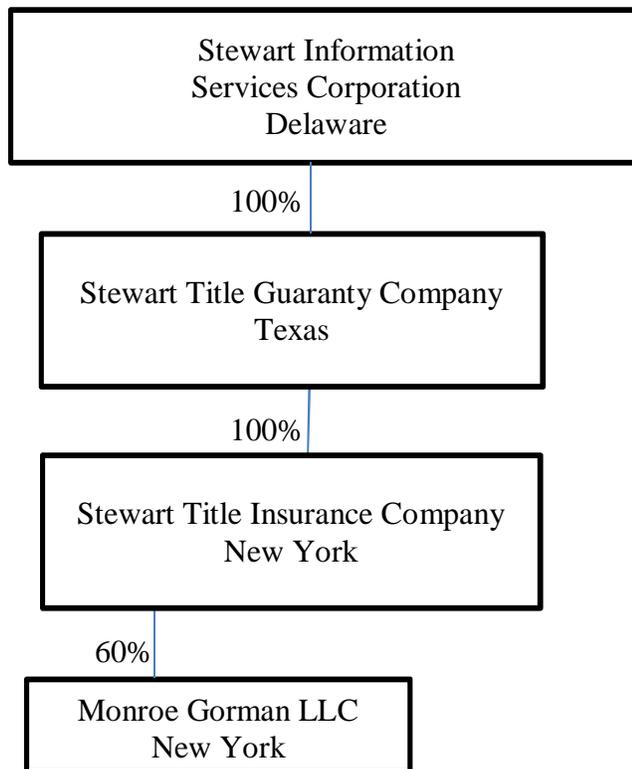
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Stewart Group. The Company is a 100% wholly-owned subsidiary of Stewart Title Guaranty Company, an insurer domiciled in the State of Texas, which is ultimately controlled by Stewart Information Services Corporation, a publicly traded Delaware corporation.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2015:



Holding Company Agreements

At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

Consolidated Federal Income Tax Return Settlement Agreement

Effective January 1, 1974, the holding company entered into a consolidated federal income tax return settlement agreement with its affiliated companies. The Company was added to this agreement when it was incorporated on October 26, 1987. The agreement has since been amended over the years. The latest amendment was filed with the Department and was non-objected to on November 14, 2011. The Texas Insurance Department approved this agreement on October 21, 2011. The amendment covers the 2011 tax year and later years. The agreement was amended to clarify the meaning, terms and operation of the agreement related to tax losses, and foreign tax credits. The terms of the agreement describe that the corporate parties each of whom is named in this agreement agrees to file a consolidated Federal Income Tax Agreement.

Sublease Agreement

Effective January 1, 2010, the Company entered into a sublease agreement with Asset Preservation, Inc., an affiliate within the Stewart Title Group. Pursuant to the terms of the sublease agreement, Asset Preservation, Inc. agrees to pay rent and other charges to the Company in monthly installments. This agreement was submitted to the Department on December 1, 2009 and was non-objected to on December 23, 2009.

Intercompany Cost Allocation Agreement

Effective July 1, 2012, the Company entered into a cost allocation agreement with its parent, Stewart Title Guaranty Company (“STG”). The terms of the agreement describe that each party to the agreement has employees experienced in the service areas of finance and accounting, policy services, information technology, human resources, procurement, marketing, legal services, underwriting, and claims management (together “services”). Each party may allocate some or all services to the other party to the agreement, pay direct costs for any services, and have certain employees from either party provide certain services to the other party of the contract.

The prior examination report contained a recommendation that the Company’s executed agreement include all provisions contained in the version that was non-disapproved by the Department.

The Company has not complied with this recommendation and indicated that they have not re-executed the agreement, and that they are currently still working on the re-execution aspect of this agreement.

It is recommended that the Company submit the re-executed agreement containing all the provisions contained in the version that was non-disapproved by the Department.

Subsequent to the examination, on October 4, 2018, the Company has complied with this recommendation.

E. Significant Operating Ratios

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the two-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 18,638,158	3.95%
Operating expenses incurred	427,021,818	90.47
Net underwriting gain (loss)	<u>26,353,569</u>	<u>5.58</u>
Premiums earned	<u>\$472,013,545</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 83,966,044	\$ 0	\$ 83,966,044
Properties occupied by the company	918,546	0	918,546
Cash, cash equivalents and short-term investments	9,285,291	0	9,285,291
Other invested assets	202,308	0	202,308
Title plants	235,053	0	235,053
Investment income due and accrued	1,204,312	0	1,204,312
Uncollected premiums and agents' balances in the course of collection	6,550,712	749,569	5,801,143
Net deferred tax assets	5,603,486	2,888,675	2,714,811
Electronic data processing equipment and software	36,243	0	36,243
Furniture and equipment	340,696	340,696	0
Receivables from parent, subsidiaries and affiliates	287,192	0	287,192
Aggregate write-ins for other than invested assets	<u>1,417,422</u>	<u>1,184,136</u>	<u>233,286</u>
Total assets	<u>\$110,047,305</u>	<u>\$5,163,076</u>	<u>\$104,884,229</u>

Liabilities, Surplus and Other Funds

Liabilities

Known claim reserve	\$ 8,900,567
Statutory premium reserve	51,102,180
Other expenses (excluding taxes, licenses and fees)	3,384,972
Taxes licenses and fees (excluding federal and foreign income taxes)	304,624
Current federal and foreign income taxes	6,603,443
Payable to parent, subsidiaries and affiliates	831,603
Aggregate write-ins for other liabilities	<u>230,219</u>
 Total liabilities	 \$ 71,357,608

Surplus and Other Funds

Common capital stock	\$ 1,100,000
Gross paid in and contributed surplus	23,825,476
Unassigned funds	<u>8,601,145</u>
Surplus as regards policyholders	<u>33,526,621</u>
 Total liabilities, surplus and other funds	 <u>\$104,884,229</u>

Note: The Internal Revenue Service (“IRS”) has completed its audit of the Company’s ultimate parent, Stewart Information Services Corporation (“SISCO”) federal income tax return for calendar year 2012 without any adjustments impacting the Company. SISCO’s federal income tax returns open to examination are for calendar years 2013 and 2014. SISCO will be filing its 2015 federal income tax return on or before September 15, 2016. SISCO expects no material adjustments from any tax return examination.

B. Statement of Income

The net income for the examination period as reported by the Company was \$21,545,873 as detailed below:

Underwriting Income

Premiums and fees earned		\$472,013,545
Deductions:		
Loss and loss adjustment expenses incurred	\$ 18,638,158	
Operating expenses incurred	<u>427,021,818</u>	
Total underwriting deductions		<u>445,659,976</u>
Net underwriting gain or (loss)		\$ 26,353,569

Investment Income

Net investment income earned	\$ 5,971,657	
Net realized capital gains (losses)	<u>894,185</u>	
Net investment gain or (loss)		6,865,842

Other Income

Aggregate write-ins for miscellaneous income	<u>269,121</u>	
Total other income		<u>269,121</u>
Net income before federal income taxes		\$ 33,488,532
Federal and foreign income taxes incurred		<u>11,942,659</u>
Net income (loss)		<u>\$ 21,545,873</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$7,966,878 during the two-year examination period January 1, 2014 through December 31, 2015 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2013			\$41,493,499
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$21,545,873		
Net unrealized capital gains	141,202		
Change in net unrealized foreign exchange capital gain (loss)			
Change in net deferred income tax		296,835	
Change in non-admitted assets	1,172,393		
Paid in capital changes	54,826		
Dividends to stockholders		30,000,000	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>584,337</u>	
Net increase (decrease) in surplus	\$22,914,294	\$30,881,172	<u>(7,966,878)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$33,526,621</u>

4. KNOWN CLAIMS RESERVE AND STATUTORY PREMIUM RESERVE**A. Known Claims Reserve**

The examination liability for the captioned item of \$8,900,567 is the same as reported by the Company as of December 31, 2015. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

B. Statutory Premium Reserve

The examination reserve of \$51,102,180 is the same as the amount reported by the Company as of December 31, 2015. The reserve was calculated based on a formula pursuant to Section 6405(a) of the New York Insurance Law, which includes a provision for the application of a dollar amount for each policy written and a percentage amount of the face amount of each policy.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained five recommendations as follows (page numbers refer to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company require its officers, directors and key employees to complete and sign conflict of interest statements on an annual basis and retain them in its files. It is further recommended that the completed and signed conflict of interest statements be provided to the Company's board of directors annually and that the minutes of the board of directors' meetings acknowledge their review.	5
The Company has complied with this recommendation.	
ii. It is recommended that the Company respond accurately to all general interrogatory questions on the annual statement.	5
The Company has complied with this recommendation.	
B. <u>Holding Company</u>	
i It is recommended that the Company submit any agreements with its affiliates to the Department at least 30 days prior to implementation pursuant to the provision of Section 1505(d)(3) of the New York Insurance Law.	8
The Company has complied with this recommendation.	
ii It is recommended that the Company's executed agreement include all provisions contained in the version that was non-disapproved by the Department.	9
Subsequent to the examination, on October 4, 2018, the Company has complied with this recommendation.	
C. <u>Insurance Frauds Prevention</u>	
It is recommended that the Company's applications for insurance contain the required fraud awareness clause and that the Company notify claimants of the penalties of filing fraudulent claims as part of the claims submission process pursuant to Section 403(d) of the New York Insurance Law.	11
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Holding Company

It is recommended that the Company's executed agreement include all provisions contained in the version that was non-disapproved by the Department.

8

Subsequent to the examination, on October 4, 2018, the Company has complied with this recommendation.

Respectfully submitted,

_____/S/
Rajendra Sunder,
Financial Services Examiner 2

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Rajendra Sunder, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/
Rajendra Sunder

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31409

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, SHIRIN EMAMI, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Rajendra Sunder

as a proper person to examine the affairs of the

Stewart Title Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 6th day of January, 2016

*Shirin Emami
Acting Superintendent of Financial Services*

By:



Rolf Kaumann
Deputy Chief Examiner

