

REPORT ON EXAMINATION

OF

ONETITLE NATIONAL GUARANTY COMPANY, INC.

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 3, 2019

EXAMINER

JUSTIN MATHEW

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

September 20, 2019

Honorable Linda A. Lacewell
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 31836 dated November 6, 2018, attached hereto, I have made an examination into the condition and affairs of OneTitle National Guaranty Company, Inc. as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate OneTitle National Guaranty Company, Inc.

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 Department’s office located at One State Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. This is the first financial examination of the Company after the report on organization, which was conducted as of November 25, 2013. This examination covered the period from November 26, 2013 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition of the Company by obtaining information about the Company including corporate governance and evaluating system controls and procedures. 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.

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

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

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

OneTitle National Guaranty Company, Inc. was incorporated under the laws of the State of New York on April 1, 2013. It became licensed on December 24, 2013 and commenced business on February 18, 2014.

The Company underwrites title insurance for owners and mortgagees across New York State as a primary insurer. Policies are issued through its affiliate, OneTitle Land Services, LLC, a Delaware limited liability company.

A. Corporate Governance

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than seven nor more than twelve directors. At December 31, 2017, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| Seth Andrew Brown Brooklyn, NY | Founder and Principal, Aspen Equities LLC |
| Erik Horvat Brooklyn, NY | Managing Director, Fosun Property Holdings |
| John Stephen Lapides New Haven, CT | President, United Aluminum Corporation |
| Stanley Lefkowitz New York, NY | Chief Financial Officer, The Falconwood Corporation |
| Barry James Nalebuff New Haven, CT | Professor, Yale University |
| Daniel Charles Price Brooklyn, NY | President and Chief Executive Officer, OneTitle National Guaranty Company, Inc. |
| Brian Lance Sauerteig New Haven, CT | President, BLS Strategic Capital Partner, Balance Point Capital Advisors, LLC |

As of December 31, 2017, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|----------------------|---|
| Daniel Charles Price | President and Chief Executive Officer |
| Alan Doran | Executive Vice President, General Counsel, Secretary and Treasurer |

B. Territory and Plan of Operation

As of December 31, 2017, the Company wrote business in New York only. It is authorized to transact title insurance as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law.

Based upon the line of business for which the Company is licensed and the Company's 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 \$500,000.

The following schedule shows the total gross premiums written by the Company for the period under examination. The Company did not assume any business during the examination period.

| <u>Calendar Year</u> | <u>Total Gross Premiums</u> |
|----------------------|-----------------------------|
| 2013 | \$ 0 |
| 2014 | \$ 79,800 |
| 2015 | \$345,328 |
| 2016 | \$578,328 |
| 2017 | \$860,195 |

C. Reinsurance Ceded

Effective July 1, 2016, the Company entered into a three-year reinsurance agreement with Fidelis Underwriting Ltd. The agreement provides for reinsurance for all claims in excess of \$250,000 on any policy issued. The coverage is on a risk attaching basis and provides for the option of direct access by the insured. Further, the Company purchased reinsurance for all policies in excess of \$250,000 issued between the Company's founding in 2013 and June 30, 2016. The coverage is evidenced by a facultative reinsurance

endorsement attached to each policy issued in excess of \$250,000. The agreement insures each policy individually and is not subject to any aggregate treaty liability limitations.

The ceded reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

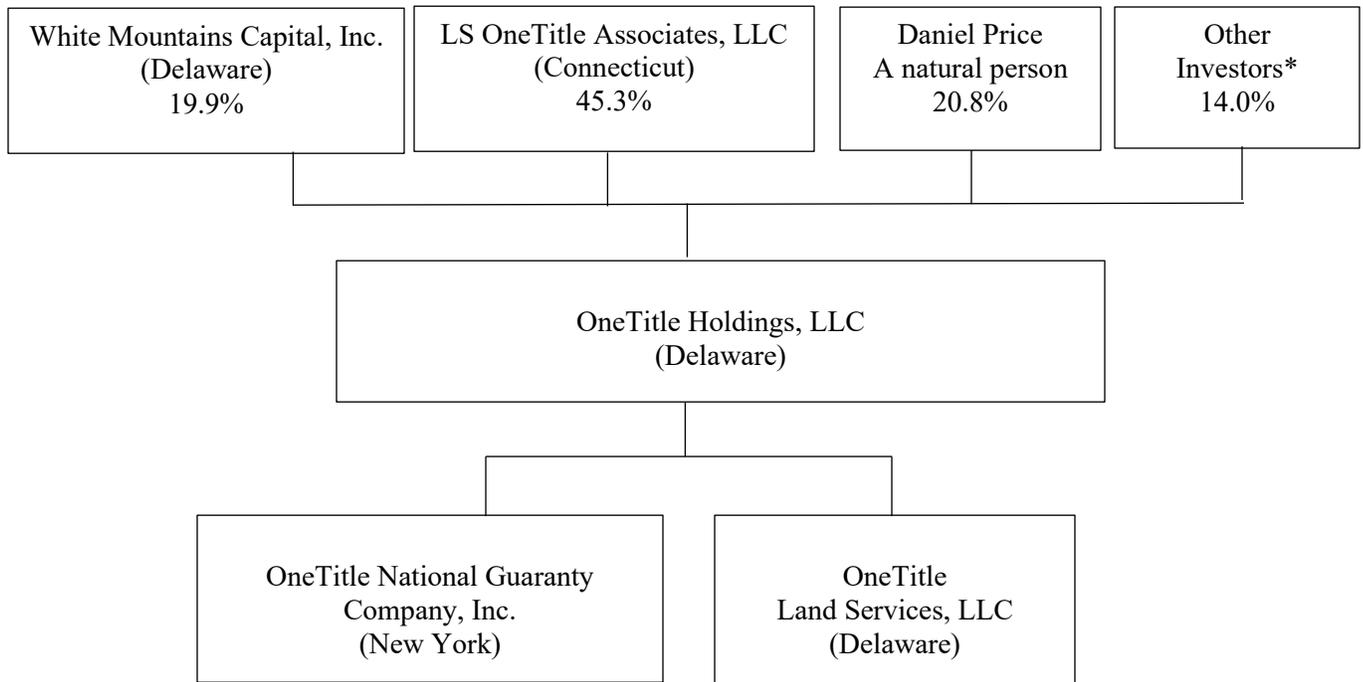
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that the ceded reinsurance agreement transfers both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Accounting Principles (“SSAP”) No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements. The reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a wholly-owned subsidiary of OneTitle Holdings, LLC, a Delaware limited liability company. OneTitle Holdings, LLC is majority-owned by LS OneTitle Associates, LLC (45.3%), followed by Mr. Daniel Price (20.8%), White Mountains Capital, Inc (19.9%), and various other minority investors. As stated previously, the Company underwrites title insurance for owners and mortgagees across New York State as a primary insurer. Policies are issued through its affiliate, OneTitle Land Services LLC (“LS”).

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.

The following is an abridged chart of the holding company system at December 31, 2017:



*Other investors:

Seth Brown, a natural person (7.8%)

Edgehill Cliff Associates LLC, a Connecticut Partnership (2.7%)

STAMPS, a California general partnership (1.9%)

Greg Share, a natural person (0.7%)

Rachel Jaffe, a natural person (0.3%)

Alan Doran, a natural person (0.3%)

Robyn Coppola, a natural person (0.2%)

Justyna Gromek, a natural person (0.1%)

Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

Administrative Services Agreement

Effective November 19, 2013, the Company and LS entered into an administrative services agreement whereby each party agreed to provide certain services as requested by each party. Pursuant to the agreement:

1. LS shall provide the Company with accounting services as may be required by the Company, including preparation and maintenance of financial statements and reports, and processing of financial records and transactions of the Company.
2. LS shall provide or arrange for provision to the Company of (i) telecommunications services and electronic data processing services, facilities and integration, including software programming and documentation, hardware utilization related to provision of certain policyholder services and administration; (ii) purchasing and employee relations services; and (iii) any other services that may be requested by the Company in connection with the operation of the business.
3. The Company shall provide LS or arrange for the provision to LS of (i) legal services, including advising on regulatory compliance and rendering opinions on legal matters as required or requested by LS and (ii) services by Company's senior management in connection with LS operations.
4. To the extent reports are not required by other sections in this agreement, LS shall render to Company, or Company shall render to LS, promptly upon request, such reports or other information as may be requested from time to time.

The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Policy-Issuing Agent Agreement

Effective November 22, 2013, the Company appointed LS, a policy issuing agent, for the purpose of signing, countersigning and issuing commitments, binders, title reports, certificates, guarantees (other than guarantees relating to correctness of title searches), title insurance policies, endorsements and other agreements under which Company assumes liability for the condition of title, covering real estate located in New York State.

The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Surplus Notes

Effective December 22, 2015, the Company entered into a surplus notes purchase agreement with Bridge Holdings (Bermuda) LTD. (“Bridge Holdings”), an affiliate of White Mountains Capital, Inc. whereby Bridge Holdings agreed to provide the Company with up to \$10,000,000 in additional funding at the Company’s election, which may be used to increase the Company’s policyholders’ surplus. As of December 31, 2017, the Company has not drawn on this facility.

E. Significant Ratios

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

| | <u>Amounts</u> | <u>Ratio</u> |
|--|---------------------|-----------------|
| Losses and loss adjustment expenses incurred | \$ 57,100 | 4.03% |
| Operating expenses incurred | 3,052,441 | 215.25 |
| Net operating gain (loss) | <u>(1,691,458)</u> | <u>(119.28)</u> |
| Premiums earned | <u>\$ 1,418,083</u> | <u>100.00%</u> |

F. Accounts and Records

Conflict of Interest Statements

The Company was unable to provide conflict of interest statements signed by directors, officers and key employees for the examination period.

It is recommended that the Company require all directors, officers and key employees complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately, signed and maintained, and available for inspection.

Audit Committee

Section 89.12(e) of Department Regulation 118 states, in part:

“The Company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this

Part and within 30 days of any change in membership of the audit committee...”

The audit committee is comprised of the same individuals that make up the Company’s board of directors. The Company was unable to provide notification of the selection of its audit committee and any change in its membership within 30 days of such change.

It is recommended that the Company comply with the provisions of Section 89.12(e) of Department Regulation 118 and submit written notification of the selection of its audit committee and any change in membership of the committee within 30 days of such change.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | Assets Not <u>Admitted</u> | Net Admitted <u>Assets</u> |
|---|--------------------|-------------------------------|-------------------------------|
| Bonds | \$ 795,191 | \$ 0 | \$ 795,191 |
| Cash, cash equivalents and short-term investments | 797,321 | 0 | 797,321 |
| Investment income due and accrued | 2,495 | 0 | 2,495 |
| Uncollected premiums and agents' balances in the course of collection | 23,028 | 0 | 23,028 |
| Furniture and equipment, including health care delivery assets | 9,621 | 9,621 | 0 |
| Receivables from parent, subsidiaries and affiliates | <u>77,903</u> | <u>0</u> | <u>77,903</u> |
| Total assets | <u>\$1,705,559</u> | <u>\$9,621</u> | <u>\$1,695,938</u> |

Liabilities, Surplus and Other Funds

Liabilities

| | | |
|---|--|--------------|
| Known claims reserve | | \$ 2,500 |
| Statutory premium reserve | | 35,713 |
| Supplemental reserve | | 8,550 |
| Commissions, brokerage and other charges due or accrued to attorney, agents and real estate brokers | | 19,228 |
| Other expenses (excluding taxes, licenses and fees) | | 25,514 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | <u>1,382</u> |
| Total liabilities | | \$ 92,887 |

Surplus and Other Funds

| | | |
|--|--------------------|--------------------|
| Common capital stock | \$ 500,000 | |
| Gross paid in and contributed surplus | 2,800,100 | |
| Unassigned funds | <u>(1,697,049)</u> | |
| Surplus as regards policyholders | | <u>1,603,051</u> |
| Total liabilities, surplus and other funds | | <u>\$1,695,938</u> |

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net loss for the examination period as reported by the Company was \$1,678,671, as detailed below:

Operating Income

| | | |
|--|------------------|------------------|
| Title insurance premiums earned | | \$ 1,418,083 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | \$ 57,100 | |
| Operating expenses incurred | <u>3,052,441</u> | |
| Total operating deductions | | <u>3,109,541</u> |
| Net operating loss | | \$(1,691,458) |

Investment Income

| | | |
|------------------------------|------------|------------------------|
| Net investment income earned | \$ 12,643 | |
| Net realized capital gain | <u>144</u> | |
| Net investment gain | | <u>12,787</u> |
| Net income (loss) | | \$(<u>1,678,671</u>) |

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$897,049 during the examination period November 25, 2013 through December 31, 2017, as reported by the Company, detailed as follows:

| | | | |
|---|-----------------------------|------------------------------|--------------------|
| Surplus as regards policyholders, as reported by the Company as of November 25, 2013 | | | \$2,500,100 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | | \$1,678,671 | |
| Change in net unrealized capital losses | | 207 | |
| Change in non-admitted assets | | 9,621 | |
| Change in supplemental reserves | | 8,550 | |
| Surplus contribution | <u>\$800,000</u> | _____ | |
| Total gains and losses | \$800,000 | \$1,697,049 | |
| Net decrease in surplus | | | (<u>897,049</u>) |
| Surplus as regards policyholders, as reported by the Company as of December 31, 2017 | | | <u>\$1,603,051</u> |

Capital paid in is \$500,000 consisting of 250,000 shares of \$2 par value per share common stock. Gross paid in and contributed surplus is \$2,800,100. Gross paid in and contributed surplus increased by \$800,000 during the examination period as follows:

| <u>Year</u> | <u>Description</u> | <u>Amount</u> |
|-------------|---|--------------------|
| 2013 | Beginning gross paid in and contributed surplus | \$2,000,100 |
| 2015 | Surplus contribution | <u>800,000</u> |
| 2017 | Ending gross paid in and contributed surplus | <u>\$2,800,100</u> |

4. **RESERVES**

A. Known Claims Reserve

The examination liability for the captioned item of \$2,500 is the same as reported by the Company as of December 31, 2017. The examination analysis of the known unpaid claims and loss adjustment expenses was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including paragraph 8 of SSAP No. 57.

B. Statutory Premium Reserve

The examination reserve of \$35,713 is the same as the amount reported by the Company as of December 31, 2017. 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.

C. Supplemental Reserve

The examination reserve of \$8,550 is the same as the amount reported by the Company as of December 31, 2017. The reserve was calculated in accordance with generally accepted actuarial principles and statutory accounting principles, including paragraph 10 of SSAP No. 57.

5. **SUBSEQUENT EVENTS**

Effective December 31, 2018, the Company ceased accepting new orders and issuing any new policies. The board of directors has positioned the Company for sale.

6. COMPLIANCE WITH REPORT ON ORGANIZATION

The report on organization contained one recommendation as follows (page number refers to the prior report):

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|--|-----------------|
| A. | It was recommended that the Company execute a custodial agreement with the bank that is holding its invested assets, which contains the required provisions pursuant to the NAIC Financial Condition Examiners Handbook. | 4 |

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|---|-----------------|
| A. | <u>Accounts and Records</u> | |
| i. | It is recommended that the Company require all directors, officers and key employees complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately and signed and maintained and available for inspection. | 8 |
| ii. | It is recommended that the Company comply with the provisions of Section 89.12(e) of Department Regulation 118 and submit written notification of the selection of its audit committee and any change in membership of the committee within 30 days of such change. | 9 |

Respectfully submitted,

_____/S/_____
Justin Mathew
Senior Insurance Examiner

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

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

_____/S/_____
Justin Mathew

Subscribed and sworn to before me

this _____ day of _____, 2020

APPOINTMENT NO. 31836

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Justin Mathew

as a proper person to examine the affairs of the

OneTitle National Guaranty Company, Inc.

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 November, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*