

**Investors Title Insurance Company**

Chapel Hill, North Carolina

**Report on Examination**

As of December 31, 2014

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March 4, 2016

Honorable Wayne Goodwin  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

### **Investors Title Insurance Company**

(hereinafter referred to as the “Company”), at its main administrative office located at 121 North Columbia Street, Chapel Hill, North Carolina, 27514. The Company’s statutory home office is located at the same address. The following report on examination is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2010 to December 31, 2014, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2009.

The purpose of this examination was to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of two (2) insurance company subsidiaries of Investors Title Company. North Carolina served as the Lead State and Texas was a Participating State.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Pricing and Underwriting  
Claims Handling and Reserving  
Reinsurance Assuming/Reinsurance Ceding  
Related Parties  
Investing

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58, and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact, and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Dixon Hughes Goodman ("DHG"), LLP of High Point, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2014.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Paul Struzzieri, FCAS, MAAA of Milliman, Inc.

## REPORT ACRONYMS

"DHG"	Dixon Hughes Goodman, LLP
"ITC"	Investors Title Company, Inc.
"ITIC"	Investors Title Insurance Company
"ITEC"	Investors Title Exchange Corporation
"ITMS"	Investors Title Management Services, Inc.
"ITCA"	Investors Title Commercial Agency, LLC
"INTC"	Investors Trust Company
"ITAC"	Investors Title Accommodation Corporation
"ICMC"	Investors Capital Management Company
"ITIC LLC"	ITIC, LLC
"NITIC"	National Investors Title Insurance Company
"SSAP"	Statements of Statutory Accounting Principles
"FATIC"	First American Title Insurance Company

## SUMMARY OF SIGNIFICANT FINDINGS

### PRIOR EXAMINATION

#### 1. Reclassifications

- a. A reclassification totaling \$5,579 was made in the Statement of Assets to report a receivable for assumed reinsurance premiums in accordance with the NAIC Annual Statement Instructions and SSAP No. 62. The reclassification had no impact on the Company's surplus.

#### 2. Comments, Recommendations and Directives

- a. The Company incorrectly netted the assumed reinsurance premium receivable totaling \$5,579 with the ceded reinsurance premiums payable and reported a net balance in the Statement of Liabilities, Capital, and Surplus. Pursuant to the NAIC Annual Statement Instructions and SSAP No. 62 paragraphs 36 and 43, reinsurance premiums receivable shall be reported as agents' balance or uncollected premiums and ceded reinsurance premiums payable shall be classified as a liability. The Company is directed to comply with the NAIC Annual Statement Instructions and SSAP No. 62.

### CURRENT EXAMINATION

There were no significant findings to report in the current examination.

## COMPANY HISTORY

The Company was incorporated in 1972 under the laws of North Carolina as Investors Title Insurance Company and is a wholly owned subsidiary of Investors Title Company, Inc. (“ITC”), an insurance holding company incorporated in the State of North Carolina. The Company is licensed to write title insurance for residential, institutional, commercial and industrial properties.

### CAPITAL STOCK

As of December 31, 2014, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,100,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$2,000,000
Par value per share	\$2

No additional shares were issued during the period under examination. As of December 31, 2014, all outstanding shares are owned by ITC.

The Company’s gross paid-in and contributed capital totaled \$1,509,772 and unassigned funds totaled \$69,005,160 at December 31, 2014.

### DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of: 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts exceeding these limits are considered extraordinary and require prior Department approval. The Company paid dividends of \$5.0 million and \$9.2 million in 2014 and 2013, respectively.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of Directors shall be not less than five and no more than fifteen. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2014:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
James Allen Fine	Chapel Hill, NC	Chief Executive Officer & Chairman of the Board
James Allen Fine, Jr.	Chapel Hill, NC	Chief Financial Officer & Treasurer
William Morris Fine	Chapel Hill, NC	President & Chief Operating Officer
Lyna Dawn Martin	Chapel Hill, NC	Vice President – Corporate Administration
Christopher Todd Murphy	Chapel Hill, NC	Senior Vice President of Finance

The Board has the authority to establish committees. These committees have the power and duties deemed appropriate by the Board, however, their power cannot exceed the power of the Board. The Board has appointed the ITC Audit Committee to act on behalf of the Company.

The following individuals served on the ITC Audit Committee at December 31, 2014:

**Audit Committee**

H. Joe King, Jr., Chair  
 David L. Frances  
 R. Horace Johnson

**Officers**

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a Chairman of the Board, President, Secretary, Treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person except for the offices of President and Secretary.

The following individuals served as officers of the Company at December 31, 2014:

<b>Name</b>	<b>Title</b>
James Allen Fine	Chief Executive Officer & Chairman of the Board
William Morris Fine	President & Chief Operating Officer
David Allen Bennington	Secretary & Senior Vice President
James Allen Fine, Jr.	Treasurer, Chief Financial Officer & Executive Vice President

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. Based on our review, there were no changes since the last examination.

## **CORPORATE ORGANIZATION**

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is wholly-owned by ITC, a publicly traded company incorporated in North Carolina.

On April 2, 2012, ITIC purchased a 70% ownership interest in United Title Agency Co., LLC ("United Title"), with both ITIC and the seller being given the option to have ITIC purchase the remaining 30% interest at a later date. The contingent payment arrangement required that the purchase price be paid over a two year period and was determined by multiplying United Title's actual net income on a GAAP basis for the first full 24 calendar months subsequent to closing by an agreed upon factor. In no event was the purchase price for the majority interest to exceed \$1,041,250.

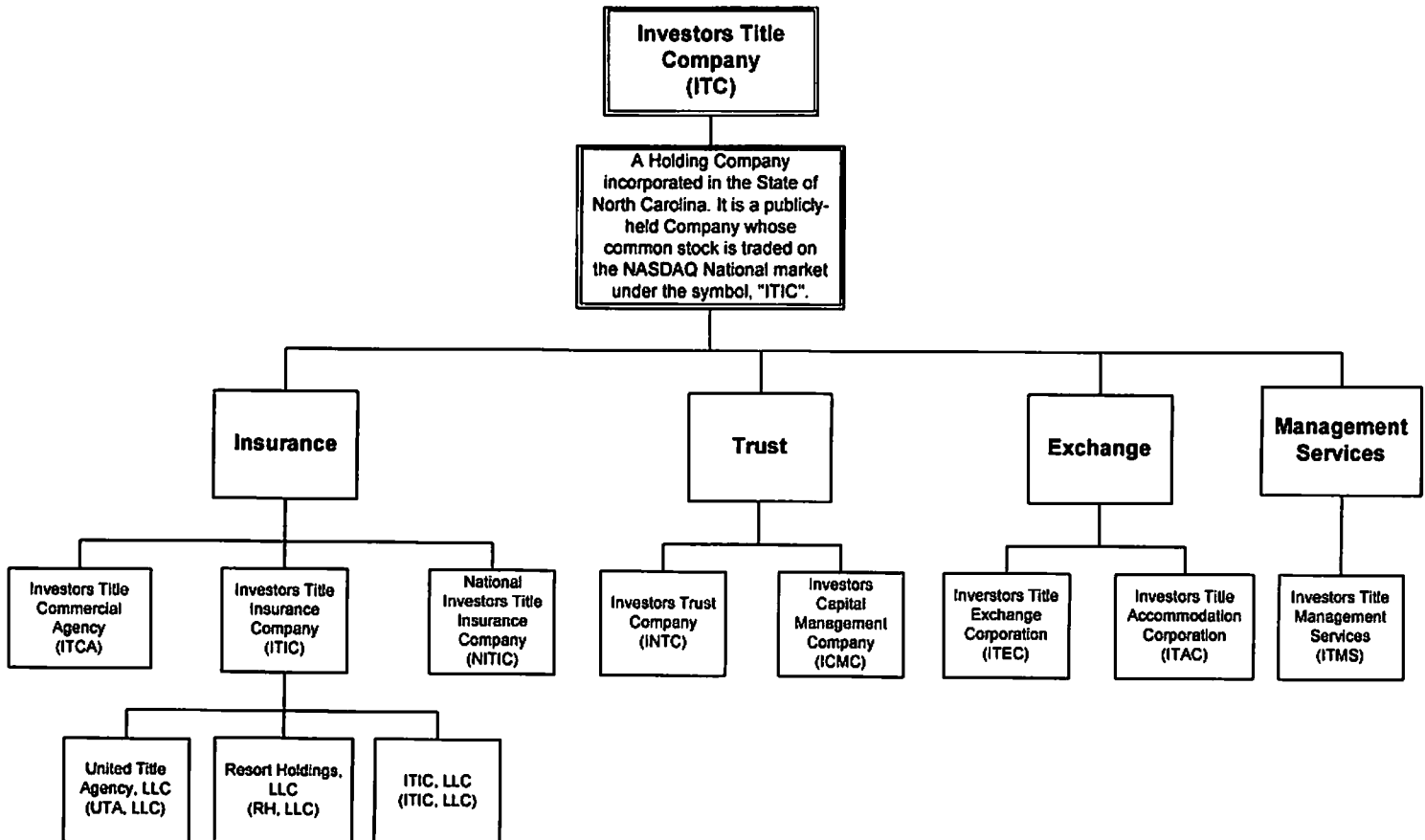
On May 2, 2014, the Company purchased the remaining 30% ownership interest in United Title, making United Title a wholly owned subsidiary of the Company. The Company paid a total of \$1,556,525 for the entire purchase price of United Title.



## ORGANIZATIONAL CHART

The following is an organizational chart including all of the entities in the ITC Group:

# INVESTORS TITLE CORPORATE ORGANIZATIONAL CHART



## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2014 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

## **ACCOUNTS AND RECORDS**

The Company's books and records are maintained at the main administrative office at 121 North Columbia Street, Chapel Hill, North Carolina 27514.

The Company's significant applications for premiums, claims and accounting are hosted on servers at the Company's main administrative office in Chapel Hill, North Carolina.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is a named insured under a fidelity bond issued to ITC with coverage totaling \$20,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies issued to ITC, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

On November 17, 2003, the Company entered into executive employment agreements with key personnel, which provide for the continuation of employee benefits, including health insurance, dental insurance, vision insurance and life insurance, upon the retirement. The total liability accrued as of December 31, 2014 and 2013 regarding this plan was \$653,387 and \$606,032, respectively.

In 2008, the Company established a 401(k) savings plan for eligible employees. The Company makes a safe harbor contribution equal to 3% of each employee's salary each year and has the option to make a discretionary profit share contribution annually. The Company's profit share contribution was 1% in 2014 and 2013. Individuals may elect to make contributions up to the maximum deductible amount as determined by the Internal Revenue Code. The Company incurred expenses related to this plan totaling \$580,021 and \$488,568 in 2014 and 2013, respectively,

ITC's last employee stock option plan under which options to purchase shares of ITC may be granted to employees of ITC at a price not less than the market value on the date of the grant expired in 2011; however, any stock options outstanding at that time continued to be available to the grantee until exercise or expiration. A total of 21,000 and 19,000 in stock options were outstanding as of December 31, 2014 and 2013, respectively.

## **RELATED PARTY AGREEMENTS**

ITIC is the only entity within the holding company system that has employees. Expenses incurred for salaries, insurance benefits, payroll taxes and other operating costs are shared among the affiliated entities based on direct costs under various management services agreements.

ITIC has management services agreements with ITC, NITIC, ITEC, ITAC, ITMS, ITCA, INTC, ICMC and ITIC, LLC. The following related party transactions occurred under these management agreements:

- ITMS paid expenses for salaries, payroll taxes and insurance to ITIC totaling \$1,106,917 and \$1,076,466 in 2014 and 2013, respectively.
- ITC paid salary, payroll tax and insurance expenses to ITIC totaling \$504,571 and \$500,319 in 2014 and 2013, respectively.
- NITIC paid salary, payroll tax and insurance expenses to ITIC totaling \$779,055 and \$781,566 in 2014 and 2013, respectively.

ITIC has an agreement with INTC and ICMC, where INTC and ICMC provide investment management services for ITIC. The following related party transactions occurred under these investment management agreements:

- ITIC paid custody fees to INTC totaling \$31,013 and \$104,937 in 2014 and 2013, respectively.
- ITIC paid custody fees to ICMC totaling \$572 and \$53,036 in 2014 and 2013, respectively.

ITIC has an Audit and Federal Income Tax Return Agreement with ITC and its subsidiaries. The agreement provides that the cost of the annual audit and federal tax preparation will be paid as disclosed in the engagement letter with ITC's external auditors. The agreement states that the federal income tax due or recoverable will be paid or reimbursed based upon the actual amount of federal income tax liability or recovery attributed to each party. Each subsidiary is to remit reimbursement 30 days after the end of each calendar year.

ITIC has an agreement with INTC where INTC serves as the Directed Trustee, administrative contact and provides periodic enrollment and communication meetings for the Company's 401(k) plan. The Company is to pay INTC for services rendered annually, no later than February 28th, based on the number of plan participants as of December 31st each year.

The Company has a lease agreement with ITC whereby the Company pays leasing fees for the office space utilized for its main administrative office in Chapel Hill, North Carolina. ITIC paid rental expenses to ITC totaling \$637,331 and \$646,104 in 2014 and 2013, respectively.

At December 31, 2014 and 2013, ITIC reported \$644,244 and \$674,661, respectively, due from and \$746,702 and \$795,500, respectively, due to ITC and subsidiaries. The terms of the settlement require that these amounts be settled within 30 days.

The Company owned 291,676 shares of ITC common stock at December 31, 2014 and 2013, and ITC paid dividends to the Company totaling \$93,336 in both years.

## TERRITORY AND PLAN OF OPERATION

The Company is authorized to write title insurance. The Company utilizes 28 branch offices in North Carolina and Nebraska to underwrite business and a network of agents located in various states and the District of Columbia for the distribution of products and solicitation of business.

At December 31, 2014, the Company was licensed in the following states and jurisdictions:

Alabama	Arizona	Arkansas	Colorado	Connecticut
District of Columbia	Delaware	Florida	Georgia	Idaho
Illinois	Indiana	Kansas	Kentucky	Louisiana
Maine	Maryland	Massachusetts	Michigan	Minnesota
Mississippi	Missouri	Montana	Nebraska	Nevada
New Hampshire	New Mexico	New York	North Carolina	North Dakota
Ohio	New Jersey	Oklahoma	Pennsylvania	Rhode Island
South Carolina	South Dakota	Tennessee	Texas	Utah
Vermont	Virginia	West Virginia	Wisconsin	Wyoming

### TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five year period ended December 31, 2014:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2014	\$140,364,933	\$72,514,932	\$68,991,507	\$68,298,597	\$6,899,008
2013	\$140,753,788	\$71,267,489	\$82,618,310	\$80,206,957	\$11,001,751
2012	\$122,906,017	\$59,248,924	\$74,744,975	\$72,568,478	\$9,591,907
2011	\$112,104,237	\$52,540,757	\$52,832,676	\$52,816,805	\$5,293,483
2010	\$105,862,923	\$47,788,460	\$56,716,519	\$56,154,590	\$6,034,403

## **ACTUARIAL OPINION**

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Paul Struzzieri, FCAS, MAAA of Milliman, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

## **REINSURANCE**

### **REINSURANCE CEDED**

The Company has an excess of loss contract with NITIC, an affiliate, effective October 17, 1984, and amended effective July 1, 2012. Under this contract, the Company cedes risks of loss in excess of \$6.5 million and up to \$7.5 million per policy.

The Company has an excess of loss contract with FATIC, effective October 1, 2004, and amended effective July 1, 2012. Under this contract, the Company cedes risks of loss in excess of \$7.5 million and up to \$15.0 million per policy. The Company is required to obtain written approval from the reinsurer for risks in excess of \$15.0 million. This contract is conditioned upon the Company retaining the first \$6.5 million layer of risk and its affiliate, NITIC, assuming the next \$1.0 million layer of risk per policy.

### **REINSURANCE ASSUMED**

The Company has an excess of loss reinsurance contract with NITIC, effective October 17, 1984, and amended effective July 1, 2012. Under this contract, the Company assumes risks of loss in excess of \$1.0 million and up to \$7.5 million per policy.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2013, are unexamined and are presented for comparative purposes only.

**Investors Title Insurance Company**  
**Statutory Statement of Admitted Assets**  
**December 31,**

	2014	2013 <i>(unexamined)</i>
Bonds	\$72,144,347	\$63,259,205
Preferred stocks	195,000	195,000
Common stocks	40,738,168	39,470,795
Mortgage Loans: First liens	309,916	281,599
Real Estate: Properties held for Sale	24,400	24,400
Cash and short-term investments	5,728,745	16,759,917
Other invested assets	6,487,884	5,906,600
Receivables for securities	-	139,533
<b>Total cash and invested assets</b>	<b>125,628,460</b>	<b>126,037,049</b>
Investment income due and accrued	849,910	827,458
Premiums and agents' balances in course of collection	7,113,809	7,085,133
Net deferred tax asset	1,854,053	1,466,509
Electronic data processing equipment and software	418,739	674,766
Receivables from parent, subsidiaries and affiliates	644,244	674,661
Other assets	3,830,407	3,949,965
Reinsurance receivable	25,311	38,247
<b>Total admitted assets</b>	<b>\$ 140,364,933</b>	<b>\$140,753,788</b>

**Investors Title Insurance Company**  
**Statutory Statement of Liabilities, Capital and Surplus**  
**December 31,**

	2014	2013 <i>(unexamined)</i>
Known claims reserve	\$5,346,058	\$4,617,617
Statutory premium reserve	45,675,844	45,141,657
Commissions, brokerage and other charges	172,306	291,947
Other expenses	3,588,700	4,423,744
Taxes, licenses and fees	115,787	413,232
Current federal income taxes	1,701,872	2,696,872
Payable to parent, subsidiaries and affiliates	746,702	795,500
Accrued liabilities for employee benefits	10,427,342	11,000,360
Reinsurance payable	75,390	105,370
<b>Total Liabilities</b>	<b>67,850,001</b>	<b>69,486,299</b>
Common capital stock	2,000,000	2,000,000
Gross paid in and contributed surplus	1,509,772	1,509,772
Unassigned funds	69,005,160	67,757,717
Total capital and surplus	72,514,932	71,267,489
<b>Total Liabilities, Capital and Surplus</b>	<b>\$140,364,933</b>	<b>\$1,40,753,788</b>

**Investors Title Insurance Company**  
**Statutory Statement of Operations**  
**December 31,**

	2014	2013 <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums Earned	\$68,298,597	\$80,206,957
Escrow and settlement services	149,862	145,300
Other title fees and service charges	983,579	1,108,599
Other operating income	197,016	153,854
<b>Total Operating Income</b>	<b>69,629,054</b>	<b>81,614,710</b>
<b>Deductions</b>		
Losses and loss adjustment expenses incurred	5,685,649	3,826,626
Operating expenses incurred	59,879,554	67,639,831
<b>Total operating Expenses</b>	<b>65,565,203</b>	<b>71,466,457</b>
Net underwriting gain	4,063,851	10,148,253
<b>Investment Income</b>		
Net investment income earned	4,723,385	5,031,758
Net realized capital gains	119,970	145,688
Net investment gain	4,843,355	5,177,446
<b>Other Income</b>		
Net income, after capital gains tax	8,907,206	15,325,699
Federal income taxes incurred	2,008,198	4,323,948
<b>Net Income</b>	<b>\$6,899,008</b>	<b>\$11,001,751</b>



**Investors Title Insurance Company**  
**Statutory Statement of Capital and Surplus**  
**December 31,**

<b>Capital and Surplus Account</b>	<b>2014</b>	<b>2013</b> <i>(unexamined)</i>
Capital and surplus, beginning of year	\$71,267,489	\$59,248,924
Capital and surplus increases(decreases):		
Net Income	6,899,008	11,001,751
Change in net unrealized capital gains or (losses)	(1,352,240)	9,758,508
Change in net deferred income tax	55,320	(14,739)
Change in non-admitted assets	645,355	(490,362)
Surplus adjustments to paid-in capital	-	959,662
Dividends to stockholders	(5,000,000)	(9,196,255)
Change in capital and surplus as regards policyholders for the year	1,247,443	12,018,565
<b>Capital and surplus, end of year</b>	<b>\$72,514,932</b>	<b>\$71,267,489</b>

**Investors Title Insurance Company**  
**Statutory Statement of Cash Flow**  
**December 31,**

	2014	2013 <i>(unexamined)</i>
<b>Cash From Operations</b>		
Premiums collected net of reinsurance	\$68,953,970	\$83,171,399
Net investment income	5,013,874	5,341,894
Miscellaneous income	1,180,595	1,262,453
Total	<u>75,148,439</u>	<u>89,775,746</u>
Benefit and loss related payments	4,957,208	4,263,417
Commissions, expenses paid and aggregate write-ins	61,783,479	63,601,680
Federal income taxes paid	3,065,000	4,357,662
Total	<u>69,805,687</u>	<u>72,222,759</u>
<b>Net cash from operations</b>	<u><b>5,342,752</b></u>	<u><b>17,552,987</b></u>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	10,483,789	6,505,876
Cost of investments acquired	<u>(21,293,806)</u>	<u>(13,014,054)</u>
<b>Net cash (used by) investments</b>	<u><b>(10,810,017)</b></u>	<u><b>(6,508,178)</b></u>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Capital and paid in surplus	-	959,662
Dividends to stockholders	5,000,000	9,196,255
Other cash (applied)	<u>(563,907)</u>	<u>(2,472,591)</u>
<b>Net cash (used by) financing and miscellaneous sources</b>	<u><b>(5,563,907)</b></u>	<u><b>(10,709,184)</b></u>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	(11,031,172)	335,625
Cash and short-term investments, beginning of year	<u>16,759,917</u>	<u>16,424,292</u>
<b>Cash and short-term investments, end of year</b>	<u><b>\$5,728,745</b></u>	<u><b>\$16,759,917</b></u>

## COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

**Preferred stocks:** Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade are stated at the lower of cost or fair value.

**Common stocks:** Carried at market value except investments in stock of subsidiaries which are carried using the statutory equity method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Earned at the time of closing of the related real estate transaction and reduced for reinsurance ceded.

**Reinsurance:** Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

**Non-admitted assets:** Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charged against surplus.

**Known claims reserve:** Includes amounts for known losses and expected costs to settle reported claims and excludes incurred but not reported.

**Analysis of Assets:**

The following represents an analysis of the Company's net admitted assets as of December 31, 2014:

	<b>Assets</b>	<b>Assets not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$72,144,347	-	\$72,144,347
Preferred stocks	195,000	-	195,000
Common stocks	53,070,168	12,332,000	40,738,168
Mortgage loans: first liens	309,916	-	309,916
Real estate held for sale	24,000	-	24,000
Cash and short-term investments	5,728,745	-	5,728,745
Receivables for securities	8,219,735	1,731,851	6,487,884
<b>Total cash and invested assets</b>	<b>139,692,311</b>	<b>14,063,851</b>	<b>125,628,460</b>
Investment income due and accrued	849,910	-	849,910
Premiums and agents' balances in course of collection	9,286,609	2,172,800	7,113,809
Net deferred tax assets	3,284,180	1,430,127	1,854,053
Electronic data processing equipment and software	2,405,557	1,986,818	418,739
Furniture and equipment	578,637	578,637	-
Receivable from parent, subsidiaries and affiliates	644,244	-	644,244
Other assets	3,830,407	-	3,830,407
Inventory and prepaids	607,735	607,735	-
Reinsurance receivable	25,311	-	25,311
<b>Total admitted assets</b>	<b>\$161,204,901</b>	<b>\$20,839,968</b>	<b>\$140,364,933</b>

**Reinsurance Assumed:**

In 2014 and 2013, the Company assumed premiums totaling \$174,389 and \$124,230, respectively, under the excess of loss contract with NITIC.

**Reinsurance Ceded:**

In 2014 and 2013, the Company ceded premiums totaling \$35,607 and \$48,805, respectively, to NITIC and \$123,116 and \$176,040, respectively, to FATIC under excess of loss contracts.

The effects of reinsurance on premiums written and earned are as follows;

	<b>2014</b>	<b>2013</b>
Direct and assumed written	\$68,991,507	\$82,618,310
Ceded written	158,723	224,845
<b>Net written</b>	<b>68,832,784</b>	<b>82,393,465</b>
Less: Increase in statutory premium reserve	534,187	2,186,508
<b>Net earned</b>	<b>\$68,298,597</b>	<b>\$80,206,957</b>

**Statutory Premium Reserve:**

Pursuant to GS § 58-26-20, the Company is required to maintain a statutory premium reserve for the unearned portion of original risk premiums. For years prior to 1999, the Company reserved an amount equal to 10% of current year premiums written and reduced such amounts annually by 5%. For years after 1998, the Company is required to reserve 10% of direct premiums written plus premiums for reinsurance assumed less premiums for reinsurance ceded. The reserve is reduced annually, over a period of 20 years as follows: 20% the first year, 10% the second and third year, 5% for years four through ten, 3% for years eleven through fifteen, and 2% for years sixteen through twenty. The reserve was \$45.7 million and \$45.1 million at December 31, 2014 and 2013, respectively.

**Summary of Reserves:**

The following provides a reconciliation of the Company's reserves for known losses and allocated loss adjustment expenses:

	<b>Current Year</b>	<b>Prior Year</b>
Reserve for known losses and loss adjustment expenses, beginning of year	\$4,617,617	\$5,054,408
<b>Add:</b>		
Provision for losses and allocated loss adjustment expenses, current year	298,000	174,000
Change in estimated losses and allocated loss adjustment expenses, prior years	4,173,441	2,423,549
Total incurred	4,471,441	2,597,188
<b>Deduct:</b>		
Losses and allocated loss adjustment expenses paid, current year	(61,000)	(110,000)
Losses and allocated loss adjustment expenses paid, prior year	(3,682,000)	(2,923,979)
Total paid	(3,743,000)	(3,033,979)
Reserve for known losses and allocated loss adjustment expenses, end of year	5,346,058	4,617,617
Increase in reserve for known losses and allocated loss adjustment expenses	\$728,441	\$(436,791)

### **Capital and Surplus:**

The following, in conjunction with the Capital and Surplus Account table (see page 15), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2009:

	2012	2011	2010
Capital and surplus, beginning of year	\$ 52,540,757	\$47,788,460	\$45,123,798
Capital and surplus increases (decreases):			
Net income	9,591,907	5,293,483	6,034,403
Change in net unrealized capital gain	8,517,158	1,712,382	96,236
Change in net deferred income tax	898,210	7,468	(605,026)
Change in non-admitted assets	(9,373,075)	(2,261,036)	1,651,428
Effect of changes in accounting principles	2,328,042		
Dividends to stockholders	(5,254,075)		(4,512,379)
Change in surplus as regards policyholders for the year	6,708,167	4,752,297	2,664,662
Capital and surplus, end of year	\$59,248,924	\$52,540,757	\$47,788,460

### **Contingencies and Commitments**

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

## **SUBSEQUENT EVENTS**

Effective March 20, 2015, Joel A. Vaag, FCAS, MAAA, of Oliver Wyman Actuarial Consulting, Inc. became the Company's Appointed Actuary.

**Investors Title Insurance Company  
DISTRIBUTION OF REPORT ON EXAMINATION  
December 31, 2014**

**Todd Murphy, Senior Vice President - Finance  
121 North Columbia Street  
Chapel Hill, North Carolina, 27514**

**William M. Fine, President  
121 North Columbia Street  
Chapel Hill, North Carolina, 27514**

**James A. Fine, Jr., Chief Financial Officer  
121 North Columbia Street  
Chapel Hill, North Carolina 27514**



## CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,250,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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Monique D. Smith, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

March 4, 2016

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 3/29/16  
Bill Keely

Sworn and subscribed before me this 29 day of March, 2016.

Notary Public Signature: [Signature] Notary Public Seal:

