

Report on

Market Conduct Examination

of

Fidelity National Title Insurance Company
Chicago Title Insurance Company
Commonwealth Land Title Insurance Company

Santa Barbara, California

by Representatives of the
North Carolina Department of Insurance

as of

September 11, 2014

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Raleigh, North Carolina
September 11, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Dave Jones
Commissioner of Insurance
Department of Insurance
State of California
300 Capitol Mall, Suite 1700
Sacramento, California 95814

Honorable Bruce R. Ramage
Director
Department of Insurance
State of Nebraska
Terminal Building, Suite 400
941 'O' Street
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Honorable Commissioners and Honorable Director:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

Fidelity National Title Insurance Company (NAIC #51586)
Chicago Title Insurance Company (NAIC #50229)
Commonwealth Land Title Insurance Company (NAIC #50083)
NAIC Exam Tracking System Exam Number: NC299-M55
Santa Barbara, California

hereinafter generally referred to as the Companies, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Fidelity National Title Insurance Company, Chicago Title Insurance Company, and Commonwealth Land Title Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on June 30, 2014, and covered the period of January 1, 2009, through December 31, 2013, with analyses of certain operations of the Companies being conducted through September 11, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices and claims practices.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for producers who were not appointed and/or licensed and the use of rates that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following area:

Underwriting Practices – Rating errors and unappointed producer.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

UNDERWRITING PRACTICES

Overview

The Companies’ marketing philosophy in North Carolina is directed to title insurance. The Companies’ title insurance policies were reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Title Insurance

The Companies provided a listing of 707,476 active title insurance policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies’ title insurance coverages were written utilizing manual rates. Policies were written on a single event basis. Risk placement was determined by the Companies’

underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines.

The Company was deemed to be in violation of the provisions of NCGS 58-40-30(a) as six policies reviewed (6.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- The premium for closing protection letters was calculated incorrectly on three policies.
- Rates from the prior filing period were used to rate one policy.
- The premium for the ALTA Endorsement 8.1 and the commitment premium were charged twice on one policy.
- The reissue credit was calculated incorrectly on one policy.

The rating errors resulted in four undercharges and two overcharges to the insureds. At the request of the examiners, refunds were issued by the Companies in the amount of \$60.80. The remaining 94 premiums charged were deemed correct.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Companies for one of the files reviewed (1.0 percent error ratio).

CLAIMS PRACTICES

Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, closed without payment, and subrogated claims.

One hundred fifty claims were randomly selected for review from a population of 4,164.

Paid Claims

Fifty paid claims were randomly selected for review from a population of 768. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and for timeliness of payment, supporting documentation, and accuracy of payment.

The complex nature of title insurance claims usually requires extended time in investigating, evaluating, and resolving issues. There was no violation of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 3,210. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies' reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Due to the nature of these claims, an average denial or closing without payment time was not calculated. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

Fifty subrogated claims were randomly selected for review from a population of 186. These claims represented successful recoveries for the Companies after first paying on behalf of their insureds' exposed liabilities. No violations of the provisions of NCGS 58-63-15(11) were noted.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Companies' title insurance policies are issued through third-party agents as well as directly from the Companies. Third-party agents miscalculated the premium for closing protection letters on three policies, made duplicate charges for the ALTA Endorsement 8.1 and commitment premium on one policy, and calculated the reissue credit incorrectly on one policy resulting in both undercharges and overcharges to the insureds. The Companies have indicated a reminder will be distributed to all third-party agents no later than September 30,

2014, reiterating the requirements regarding charges for title insurance rates and fees, including a copy of the Companies' current filed rates in North Carolina and information related to the Companies' online rate calculator. The Companies should continue their internal auditing and education efforts relative to third-party agents to ensure compliance with the provisions of NCGS 58-40-30(a).

The Companies directly issued one policy using rates from a prior filing period, resulting in an undercharge to the policyholder. The Companies have instituted the mandatory use of their National Rate Calculator for all direct operations, and are directed to maintain that system with the currently filed rates in North Carolina to comply with the provisions of NCGS 58-40-30(a).

One policy was produced by a company employee licensed in North Carolina, but not appointed by the underwriting company. The Companies have updated their agency database housing producer licensing information to include employee-licensees, to ensure any employees licensed in North Carolina will also be properly appointed by the underwriting companies. The Companies should continue the annual audit procedures that verify North Carolina licensees are properly appointed by the underwriting companies and in compliance with the provisions of NCGS 58-33-40.

CONCLUSION

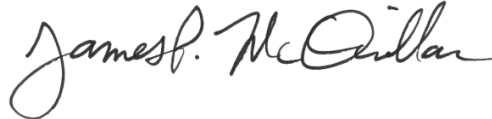
An examination has been conducted on the market conduct affairs of Fidelity National Title Insurance Company, Chicago Title Insurance Company, and Commonwealth Land Title Insurance Company for the period January 1, 2009, through December 31, 2013, with analyses of certain operations of the Companies being conducted through September 11, 2014.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation

Handbook procedures, including analyses of Company operations in the areas of underwriting practices and claims practices.

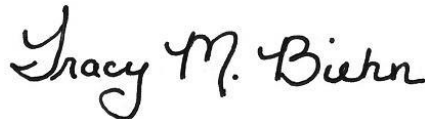
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, and Bill George, CPCU, AIS, North Carolina Market Conduct Assistant Chief Property & Casualty Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large initial 'J' and 'M'.

James P. McQuillan, CPCU, AIT
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large initial 'T' and 'B'.

Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina