

Stewart Title Guaranty Company

NAIC Number: 50121

**Report of the Targeted Market Conduct Examination for
the Period January 1, 2015 through December 31, 2017**

December 17, 2019

FINAL REPORT

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SALUTATION

December 17, 2019

Andrew N. Mais
Insurance Commissioner
Connecticut Insurance Department
153 Market Street, 7th Floor
Hartford, CT 06103

In accordance with §38a-15, a Targeted Market Conduct Examination of Stewart Title Guaranty Company (Stewart or the Company) has been conducted regarding certain Company insurance operations to determine compliance with relevant Connecticut insurance laws. The Company's records were reviewed by the examiners working remotely.

The Examination covered the period from January 1, 2015 to December 31, 2017.

**Stewart Title Guaranty Company
(NAIC Number: 50121)**

1360 Post Oak Boulevard

Suite 100

Houston, TX 77056

The report thereon, as of December 17, 2019, is herein respectfully submitted.

SCOPE OF EXAMINATION

The purpose of this Targeted Market Conduct Examination (the Examination) was to determine the Company's compliance with applicable insurance laws, rules and regulations of the State of Connecticut. The scope of the Examination included the period January 1, 2015 through December 31, 2017 (the "Period"). All working papers, draft reports, files, notes and other documents collected or compiled by any person participating in this Examination are the property of the Connecticut Insurance Department ("CID" or the "Department"). The Examination was performed under the supervision of the Department.

The National Association of Insurance Commissioners' (the "NAIC") Market Regulation Handbook (the "Handbook") served as guidance for the Examination, along with relevant Connecticut insurance laws. The Handbook Standards served as a basis for this Examination and may have been modified to meet the needs of the CID and to reflect statutes, rules and regulations referenced herein.

The Examiners relied primarily on records and information maintained by the Company and its agents.

The Examination included review of the following:

- Company Operations and Management
- Complaint Handling
- Marketing and Sales Including Inducements
- Producer Licensing and Agent Relations
- Policyholder Services
- Underwriting and Rating
- Claims

The Examination report (the "Report") is a report by exception with modifications. References to practices, procedures, or files that did not contain exceptions are limited. All unacceptable or non-complying practices may not have been identified. The failure to identify specific Company practices does not constitute acceptance of these practices.

Risk & Regulatory Consulting, LLC ("RRC") personnel participated in this Examination in their capacity as market conduct Examiners. RRC provides no representations regarding questions of legal interpretation or opinion. Determination of Findings constituting violations or potential violations is the sole responsibility of the CID.

COMPANY PROFILE

Stewart Title Guaranty Co. ("Stewart") is a wholly owned subsidiary of Stewart Information Services Corp. Stewart Information Services Corp. provides title insurance and related information services required for settlement by the real estate and mortgage industries throughout the United States and international markets. Stewart Information Services Corp. also provides post-closing lender services, automated county clerk land records, property ownership mapping, geographic information systems, property information reports, flood certificates, document preparation, background checks and expertise in tax-deferred exchanges.

As of April 2019, the two Connecticut offices located in Fairfield and Hartford had a combined staff of 25 employees. The Fairfield office contains staff that provide Commercial, Legal, and Agency services, while the Hartford office provides Legal and Agency services.

In 2018, Stewart wrote premiums in 48 states (all states other than New York and Iowa), the District of Columbia, the Commonwealth of Puerto Rico, Guam, Canada, the Northern Mariana Islands, and the U.S. Virgin Islands. Total assets as of December 31, 2018 are approximately \$1.1 billion, with a surplus of \$574.8 million. The Company has a Fitch rating of A-, an AM Best rating of A-, and a Demotech rating of A".

Sources: *Stewart 2018 Annual Statement and SNL.*

EXAMINERS METHODOLOGY

The Examiners conducted discussions with Company representatives responsible for certain Company functional areas including Complaints, Accounting and Underwriting. The Examiners discussed testing methodologies with the Company and the Department to arrive at the most efficient option to perform the work. Specific to performing the claims review and testing, the Examiners and Stewart initially discussed completing this work onsite at Stewart's Waltham, Massachusetts office. However, Stewart determined that the Company could not grant access to their claim system and it was agreed we would then conduct the review remotely using PDF files prepared by Stewart. Further, the Examiners reviewed the Stewart claims system via a WebEx, which the Company hosted.

In addition, throughout the course of the Examination, the Examiners submitted written inquiries directed to the Company to assist in gathering information and/or clarify the Examiner's understanding of a particular matter.

Further, the Examiners submitted Comment Forms (Criticisms) to the Company, which identified and communicated certain preliminary Findings and possible violations of Connecticut insurance statutes and regulations and areas of non-compliance with the Handbook. Finally, the Examiners and the Department met on a frequent basis with the Company to provide an update concerning the progress of the Examination and share relevant Findings as of the date of each meeting.

The following provides more detail regarding the Examiners' investigation of certain operational areas as follows:

Company Operations and Management

The Examiners prepared a data request, which included a request for a variety of background information concerning the Company and related information specific to the scope of the Company's license, fidelity coverages, and title plant standards. Responses were reviewed to determine compliance with the Handbook Standards and certain Connecticut Insurance laws.

Marketing and Sales Including Inducements

The Examiners requested and received a list of all sales and advertising material, training material, and marketing plans in use in Connecticut during the Examination period. Responses were reviewed to determine compliance with the Handbook Standards and certain Connecticut Insurance laws.

Additionally, certain accounting related information was requested, which focused on the Company's expense transactions. A sample of expense transactions was reviewed to investigate any matters regarding possible inducements. The Examiners reviewed the Company's overhead allocation process. In addition, the Examiners selected and tested a blended sample of 42 expense disbursement files from the Period, including the invoice or calculation to support the expense.

Complaint Handling

The Examiners requested the Company's complaint handling procedures and related information and identified three (3) complaints occurring during the Period. The complaints were reviewed to determine compliance with the Handbook Standards and Connecticut Insurance laws.

Producer Licensing and Agent Relations

The Examiners requested and received information related to the Company's interaction with their agents. Information reviewed included matters related to policy issuance, premium collection and agent contracts. Responses were reviewed to determine compliance with the Handbook Standards and certain Connecticut Insurance laws.

Policyholder Services

The Examiners requested information related to the Company's policyholder services. Information reviewed included policies and procedures related to premium notices and premium refunds. Responses were reviewed to determine compliance with the Handbook Standards and certain Connecticut Insurance laws.

Underwriting and Rating

The Examiners reviewed the Company's underwriting policies, procedures and rating manuals to determine if there are any unfair rating practices, illegal inducements and rating discrepancies. In addition, the Examiners selected a random sample of 116 underwriting and rating files from the Period and tested 80 samples.

Claims

The Examiners reviewed the Company's claims policies and procedures to determine the Company's approach to handling claims. In addition, the Examiners selected a sample of 125 claim files from the Period, testing 60 of samples.

EXAMINATION REPORT SUMMARY

The Examination resulted in 29 potential violations in which the Company does not appear to be in compliance with Connecticut insurance laws and five (5) potential instances of non-compliance with Handbook Standards. The following summarizes the Examiner's findings:

Company Operations and Management

- No exceptions were noted in this area.

Complaint Handling

The Examiners identified two (2) potential violations:

- Failure to maintain adequate complaint handling procedures.

Marketing and Sales Including Inducements

The Examiners identified the following 12 potential violations:

- Failure to retain adequate accounting records.
- Additionally, based on the review of the selected sample, the Examiners identified a number of instances involving entertainment related expenses incurred by the Company on behalf of their attorney, agents and mortgage brokers. This was a finding during the prior examination.

Producer Licensing and Agent Relations

- No exceptions were noted in this area.

Policyholder Services

- No exceptions were noted in this area.

Underwriting and Rating

The Examiners identified the following 15 potential violations:

- Failure to charge filed rates: Five (5) potential violations. This was a finding during the prior examination.
- Failure to issue a form filed with the Commissioner: Two (2) potential violations.
- Failure to provide underwriting files: Eight (8) potential violations. This was a finding during the prior examination.

The Examiners identified five (5) potential instances of non-compliance with Handbook Standards:

- Failure to charge filed rates. This was a finding during the prior examination.

Claim

No exceptions

Level of Cooperation

The Company was cooperative throughout the course of the Examination, dialogue with the Company's Examination Coordinators and other Stewart resources was collaborative and timely, and the Company staff was readily accessible and responsive to the Examiner's requests.

FACTUAL FINDINGS

Complaint Handling Findings

Issue 1: Failure to maintain adequate complaint handling procedures.

Connecticut Unfair Insurance Practices Act - Unfair Practices Sec. 38a-816 (7) provides the following:

"Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint. For purposes of this subsection, "complaint" means any written communication primarily expressing a grievance."

The Examiners requested and reviewed information from Stewart concerning the Company's Complaint process, which included a request for the Company's Complaint Policies and Procedures and the Complaint Log utilized by the Company during the Period. The Examiners identified two (2) violations in regards to the two (2) of the three (3) complaints tested as follows:

Complaint #	Violation
Consumer Complaint RITM0117645	The "file" for consumer complaints is limited to the complaint log itself. Additional supporting material is not available.
Consumer Complaint RITM0157306	The "file" for consumer complaints is limited to the complaint log itself. Additional supporting material is not available.

Underwriting and Rating Findings

Issue 1: Failure to charge filed rates.

Examination Standard Gen-1 of the Underwriting and Rating review requires:

"The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity rating plan."

Connecticut General Statute Section 38a-419 provides in part the following:

"(c) No title insurer or title agent may use or collect any premium after October 1, 1990, except in accordance with the premium rate schedule filed with and approved by the commissioner as required by this section. The commissioner may provide by regulations,

adopted in accordance with Chapter 54, for interim use of premium rate schedules in effect prior to October 1, 1990."

The Examiners selected a random sample of 116 underwriting and rating files and tested 80 of the samples on a "stop and go" basis. As a result of the Examiner's review of the 80 files there were five (5) instances in which an insurance premium inconsistent with the Company's filed rates was charged.

Issue 2: Failure to issue a form filed with the Commissioner.

Connecticut General Statute Section 38a-421 provides, in part, the following:

"(a) A title insurer shall file with the commissioner all forms it proposes to use in this state, including (1) title insurance policies, including standard form endorsements and (2) commitments, binders or any other reports issued prior to the issuance of a title insurance policy. If the commissioner finds in his review of a filing that it does not violate section 38a-422, he shall approve the form within thirty days of filing. Prior to such approval, the commissioner may conduct public hearings with respect to the filing. Filings that the commissioner has failed to approve or disapprove within thirty days of filing shall be deemed approved. Upon notice to the insurer, the period for review of a form filing may be extended for an additional thirty days."

The Examiners selected a random sample of 116 underwriting and rating files and tested 80 of the samples on a "stop and go" basis. As a result of the Examiner's review of the 80 files, there were two (2) instances in which a form issued to the policyholder was not filed with the Commissioner.

Issue 3: Failure to provide underwriting files.

Connecticut General Statute Section 38a-407 provides, in part, the following:

"No title insurance policy may be written unless and until the title insurer or its title agent has caused to be conducted a reasonable search and examination of the title and has caused to be made a determination of insurability of title in accordance with sound underwriting practices. Evidence of the examination of title and determination of insurability shall be preserved and retained in the files of the title insurer or its title agent for a period of not less than ten years after the title insurance policy has been issued. Instead of retaining the original evidence, the title insurer or title agent may in the regular course of business establish a system whereby all or part of the evidence is recorded, copied, or reproduced by any process that accurately and legibly reproduces or forms a durable medium for reproducing the contents of the original. This section shall not apply to: (1) A title insurer assuming liability through a contract of reinsurance or (2) a title insurer acting as coinsurer if one of the other reinsuring title insurers has complied with this section. In causing to be conducted a reasonable search and examination of title and determination of insurability of title, a title insurer or its agent may rely upon a policy of title insurance previously issued by a title insurer authorized to do business in this state when such policy was issued."

The Examiners selected a random sample of 116 underwriting and rating files and tested 80 of the samples on a "stop and go" basis. As a result of the Examiner's review of the 80 files, there were eight (8) instances where the Company was unable to provide the requested underwriting file.

Potential Inducement Findings

Issue 1: Failure to retain adequate accounting records.

Connecticut General Statute Section 38a-57 provides, in part, the following:

"(a) Each domestic insurance company shall maintain, within the state, such records as the commissioner may require and such portion of its assets as the commissioner may deem necessary for the purpose of adequately protecting the insured."

Based on the review of the selected sample, the Examiners identified 12 instances where the Company was unable to provide adequate documentation.

Issue 2: Failure to prohibit rebates and inducements.

Connecticut Unfair Insurance Practices Act - Unfair Practices Sec. 38a-414 provides in part the following:

"(a) No title insurer or title agent shall (1) pay, directly or indirectly, to the insured, to any producer of title insurance business, to any associate of a producer or to any other person other than another title agent, any commission, any part of its premiums, fees or other charges or any other consideration or thing of value as inducement or compensation for the referral of title insurance business or (2) issue any title insurance policy in connection with any transaction in which it has paid or intends to pay any commission or any part of its premiums, fees or other charges, or any other consideration or thing of value which it knows to be in violation of this section."

"(b) No insured named in a title insurance policy, no producer of title insurance business, no associate of a producer, nor any other person, other than another title agent, may knowingly receive or accept, directly or indirectly, any commission, rebate, consideration, thing of value or inducement referred to in subsection (a) of this section."

Connecticut Unfair Insurance Practices Act - Unfair Practices Sec. 38a-415 provides the following:

"(a) Nothing in sections 38a-400 to 38a-425, inclusive, shall be construed as prohibiting the division of premiums and charges between or among a title insurer and its title agent, two or more title insurers and their title agents, two or more title insurers, one or more title insurers and one or more title agents, or two or more title agents, provided such division

of premiums and charges does not constitute (1) an unlawful rebate or inducement under the provisions of said sections or (2) payment of a forwarding fee or finder's fee."

"(b) Notwithstanding subsection (a) of this section, for any title insurance policy issued after October 1, 1990, no title insurer shall pay to any title insurance agent or permit such agent to retain any amount exceeding sixty per cent of the gross premium for any policy of the title insurer issued by such agent. The maximum commission to a title insurance agent shall not be increased directly or indirectly by an insurer providing anything of value, including services, to an agent for less than the actual cost or fair market value."

Based on the review of the selected sample, the Examiners identified a number of instances involving entertainment related expenses incurred by the Company on behalf of their attorney, agents and mortgage brokers. However, it is noted that a portion of the incurred expenses may include costs incurred by Company employees. The instances identified appear to be inducements or remuneration to the company's agents and mortgage brokers and may represent violations of the Connecticut General Statutes, Sections 38a-414 and 38a-415.

OBSERVATIONS AND RECOMMENDATIONS

As a result of the underwriting and rating and claims handling testing performed by the Examiners, the following observations and recommendations were noted:

Underwriting and Rating Observations and Recommendations

As a result of the underwriting and rating testing performed by the Examiners, the following Observations were noted:

- **Title Searches:** The Examiners noted 40 samples where a complete copy of the title search support was not provided.

Recommendation: The Examiners recommend working more closely with their independent Attorney Agents to ensure complete supporting documentation is included in their files and available to the Company and the CID. Further, this should be a highlighted matter when the Company performs audits of their agents.

- **Forms:** The Examiners noted two (2) samples where the agent incorrectly referenced the wrong Secondary Market Endorsement form on Schedule A. The form referenced was not filed in Connecticut. In both instances, the actual Secondary Market Endorsement form itself was not attached to the policy.

Recommendation: The Examiners recommend the Company ensure that all of the forms the agents are referencing on Schedule A have been approved by the CID.

- **Remittances:** The Examiners noted one (1) sample where a Survey Endorsement was referenced in the underwriting file, along with a \$25 fee for the endorsement. The Company informed the Examiners that there was an error by the paralegal in referencing the endorsement, which was actually a Closing Protection Letter fee that was remitted.

Recommendation: The Examiners recommend the Company review its accounting policies and procedures specific to confirming documentation supporting a fee is accurate and applicable to the transaction including ensuring all remittances are labeled correctly.

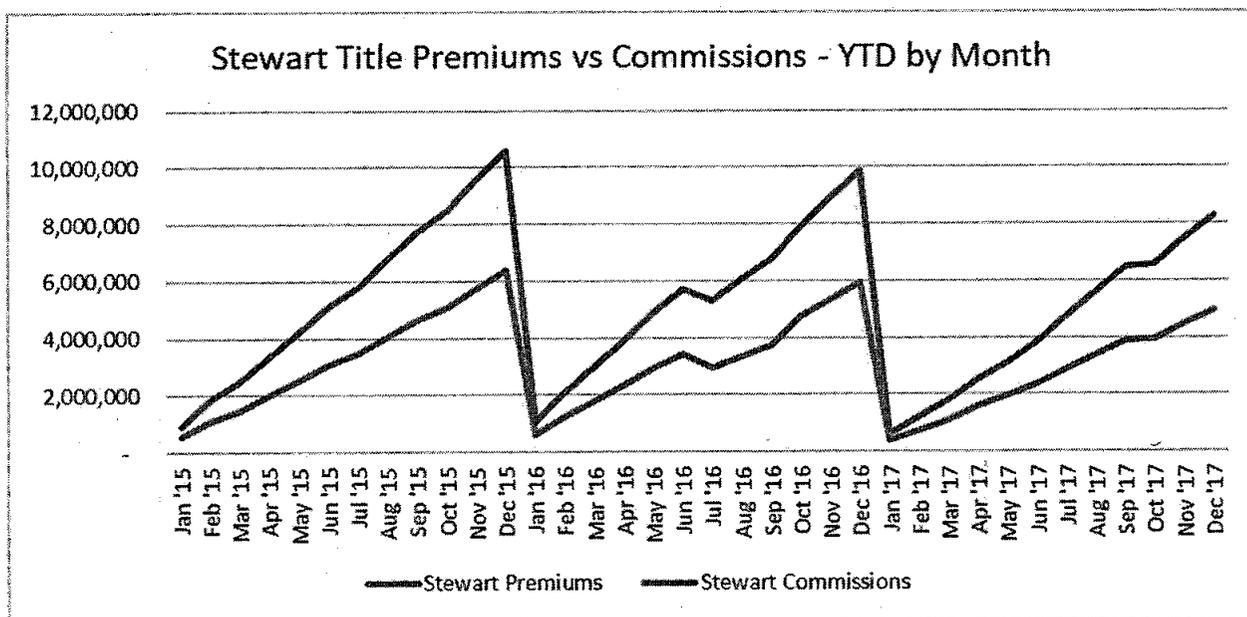
- **Inability to Provide Responses to Follow up Requests:** The Examiners noted 14 samples where the Company was unable to furnish a response to a follow up request from the Examiners.

Recommendation: The Examiners recommend working more closely with their independent Attorney Agents to ensure complete supporting documentation is included in their files and available to the Company and the CID. Further, this should be a highlighted matter when the Company performs audits of their agents.

APPENDIX A

The following is offered as reference only specific to a comparison between the Company's Premiums charged as compared to Connecticut Commissions rendered during the Period.

Please note that the chart below shows premium and commission figures that are year-to-date by month. Standalone monthly figures were not shown due to distorted figures caused by quarterly adjustments that are made by the Company.



EXAMINATION SUMMARY

Summary of Examination Findings

Finding	Description of Finding	Population	Sample Size	Number of Instances	Error Rate	Applicable Connecticut Statute
Finding #1 Complaint Handling	Failure to maintain adequate complaint handling procedures.	3	3	2	67%	Connecticut Unfair Insurance Practices Act - Unfair Practices Sec. 38a-816 (7)
Finding #1 Underwriting and Rating	Failure to charge filed rates.	116	80	5	6%	Connecticut General Statute Section 38a-419
Finding #2 Underwriting and Rating	Failure to issue a form filed with the Commissioner.	116	80	2	3%	Connecticut General Statute Section 38a-421
Finding #3 Underwriting and Rating	Failure to provide underwriting files.	116	80	8	10%	Connecticut General Statute Section 38a-407
Finding #1 Potential Inducements	Failure to retain adequate accounting records.		42	12	29%	Connecticut General Statute Section 38a-57

ACKNOWLEDGEMENT

An examination has been conducted on the market conduct affairs of Stewart Title Guaranty Company covering the period from January 1, 2015 to December 31, 2017. This Examination was conducted in accordance with the relevant Connecticut insurance laws and the applicable Handbook procedures in the areas of company operations and management, policyholder services, producer licensing, complaint handling, marketing and sales, including inducements, underwriting and rating, and claims handling practices.

The Examiners wish to express appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Barry L. Wells
Examiner-In-Charge
Risk & Regulatory Consulting, LLC



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

-----X
IN THE MATTER OF:
STEWART TITLE GUARANTY COMPANY:
-----X

DOCKET MC 20-12

STIPULATION AND CONSENT ORDER

It is hereby stipulated and agreed between Stewart Title Guaranty Company and the State of Connecticut Insurance Department by and through Andrew N. Mais, Insurance Commissioner to wit:

I

WHEREAS, pursuant to a Market Conduct examination, the Insurance Commissioner alleges the following with respect to Stewart Title Guaranty Company:

1. Stewart Title Guaranty Company, hereinafter referred to as Respondent, is domiciled in the State of Texas and is licensed to transact title insurance in the State of Connecticut. The NAIC company code number is 50121.
2. From October 1, 2018 through December 19, 2019, the Department conducted an examination of Respondent's market conduct practices in the State of Connecticut covering the period January 1, 2015 through December 31, 2017.
3. During the period under examination, Respondent failed to follow established practices and procedures to ensure compliance with statutory requirements resulting in instances of:
 - a) failure to maintain a proper complaint log.
 - b) instances where the respondent failed to charge the correct rate filed with the Department.
 - c) failure to provide sufficient documentation for regulatory review.
 - d) instances where the respondent provided inducements to obtain title insurance business.
 - e) failure to adhere to a corrective action plan as required under Docket MC 11-141.

4. The conduct described in paragraph three is in violation of Sections 38a-414, 38a-415, 38a-419, 38a-420 and 38a-423 of the Connecticut General Statutes, and constitutes cause for the imposition of a fine or other administrative penalty under Sections 38a-2 and 38a-41 of the Connecticut General Statutes.

II

1. WHEREAS, Respondent admits the allegations in paragraphs three and four of Article I of this Stipulation and Consent Order; and
2. WHEREAS, Respondent agrees to undertake a complete review of its practices and procedures, with respect to those areas of concern, as described in the Market Conduct Report and this Stipulation, so that those areas of concern are compliant with Connecticut Statutes; and
3. WHEREAS, Respondent agrees to provide the Insurance Commissioner with a full report of findings and a summary of actions taken to comply with the requirements of paragraph two of this Section within ninety (90) days of the date of this document; and
4. WHEREAS, Respondent agrees to pay a fine in the amount of \$ 47,000 for the violations described herein; and
5. WHEREAS, Respondent, being desirous of terminating administrative action without the necessity of a formal hearing or further litigation, does consent to the making of this Consent Order and voluntarily waives:
 - a. any right to notice and a hearing; and
 - b. any requirements that the Insurance Commissioner's decision contain a statement of findings of fact and conclusions of law; and
 - c. any and all rights to object to or challenge before the Insurance Commissioner or in any judicial proceeding any aspect, provision or requirement of this Stipulation

NOW THEREFORE, upon the consent of the parties, it is hereby ordered and adjudged:

1. That the Insurance Commissioner has jurisdiction of the subject matter of this administrative proceeding.
2. That Respondent is fined the sum of Forty-Seven Thousand Dollars (\$47,000) for the violations herein above described.

STEWART TITLE GUARANTY COMPANY

By: Mary Payne Thomas
(Representative of Insurance Company)

CERTIFICATION

The undersigned deposes and says that she/he has duly executed this Stipulation and Consent Order on this 26th day of June 2020, for and on behalf of Stewart Title Guaranty Company; that she/he is the Chief Regulatory Counsel of such company, and she/he has authority to execute and file such instrument.

By: Mary Pagne Thomas

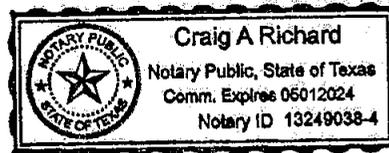
STATE OF

SS

COUNTY OF

On the 6th day of June 2020, before me personally appeared Mary Pagne Thomas, sealer of the foregoing Stipulation and Consent Order, acknowledged same to be her/his act and deed.

Craig A Richard
Notary Public/Commissioner of The Superior Court



Section Below To Be Completed by State of Connecticut Insurance Department

Dated at Hartford, Connecticut this 15 day of July 2020.

Andrew N. Mais
Insurance Commissioner