

REPORT OF EXAMINATION
OF THE
FIDELITY NATIONAL
HOME WARRANTY COMPANY
AS OF
DECEMBER 31, 2015

Filed on July 7, 2017

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San Francisco, California
June 19, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIDELITY NATIONAL HOME WARRANTY COMPANY

(hereinafter also referred to as the Company) at its home office located at 1850 Gateway Boulevard, Suite 400, Concord, California 94520.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2015.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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. The 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 following the Company's financial statements.

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

SUMMARY OF SIGNIFICANT FINDINGS

As a result of this examination, Gross Paid-in and Contributed Surplus has been increased by \$45,965,509 to \$58,107,759 as of December 31, 2015 with a corresponding adjustment to the Other Assets account. Adjustments made were due to an unrecorded capital contribution from the Company's ultimate parent, Fidelity National Financial, Inc., to the Company for the purchase of BPG Holdings, LLC in February 2015.

COMPANY HISTORY

The Company was incorporated in California on March 30, 1984 as Western Home Warranty. The name was changed to Fidelity National Home Warranty Company through a series of mergers and acquisitions. In February 2015, the Company purchased BPG Holdings, LLC for \$45,965,509. Effective December 31, 2015, one of the entities within BPG Holdings, LLC, BPG Home Warranty Company, was merged with and into the Company, with the Company being the surviving entity. The California Department of Insurance approved the merger on December 28, 2015.

Capitalization

The Company is authorized to issue 200,000,000 shares of common stock with a par value of \$1 per share. As of December 31, 2015, there were 1,598 shares outstanding.

In February 2015, the Company's ultimate parent, Fidelity National Financial, Inc., contributed \$45,965,509 in paid-in capital for the Company's purchase of BPG Holdings, LLC.

Dividends Paid to Parent

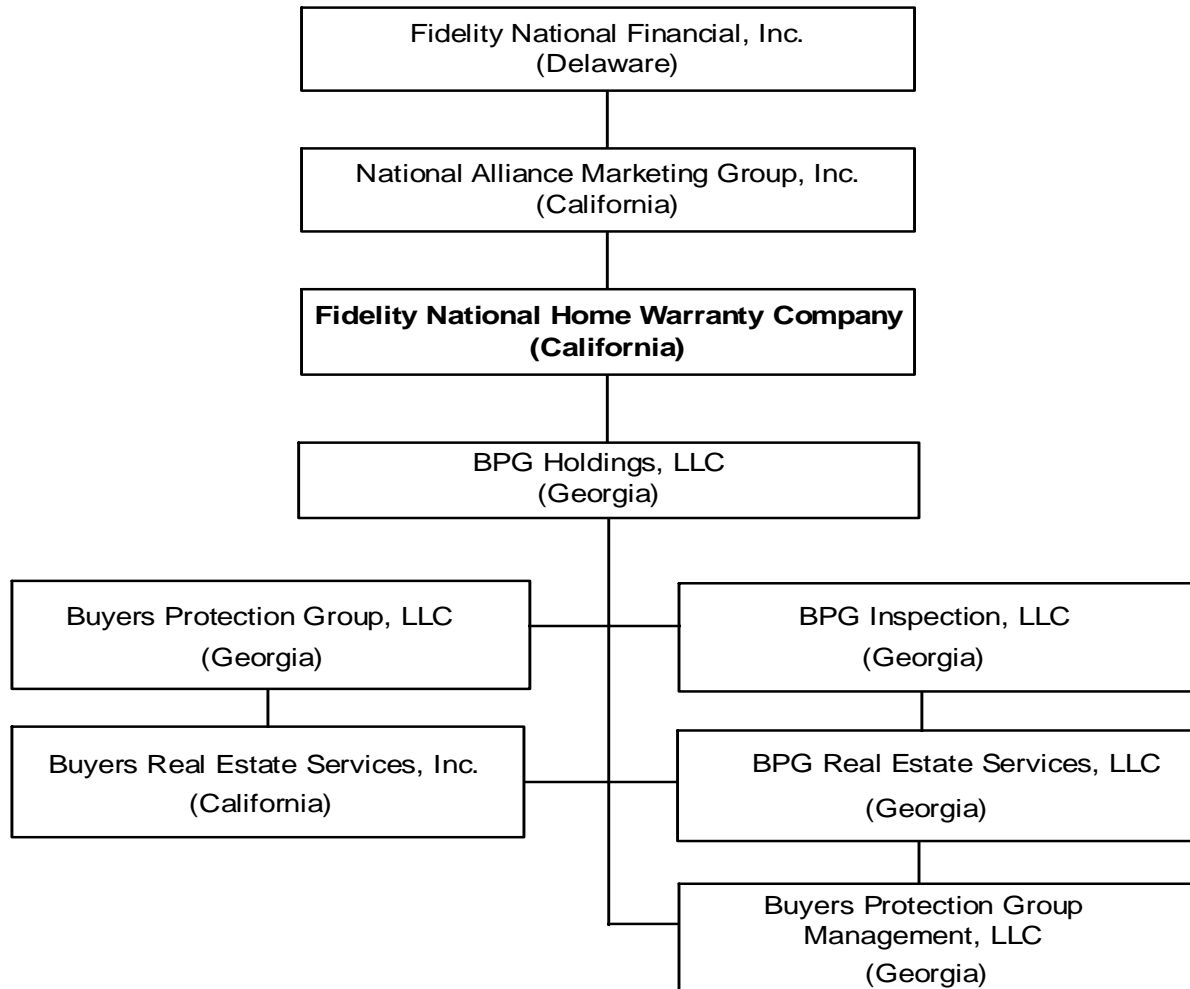
During the examination period, the Company paid cash dividends to its immediate parent company, National Alliance Marketing Group, Inc. (NAMG), as follows:

<u>Date</u>	<u>Amount</u>
Jan 2011	\$ 6,000,000
Dec 2011	6,000,000 *
Dec 2012	6,000,000
Dec 2013	6,000,000
Dec 2015	<u>6,000,000</u>
Total	<u>\$30,000,000</u>

- * In December 2011, the Company paid a \$6,000,000 extraordinary dividend to NAMG. The dividend was approved by the California Department of Insurance on December 20, 2011.

MANAGEMENT AND CONTROL

The Company is wholly-owned by National Alliance Marketing Group, Inc., and is part of a larger group of companies ultimately controlled by Fidelity National Financial, Inc. Following is an abridged organizational chart. All ownership is 100%.



The five members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2015:

Directors

Name and Location

Michael L. Gravelle
Las Vegas, Nevada

Billy D. Jensen
Sonoma, California

Principal Business Affiliation

Executive Vice President
Fidelity National Financial, Inc.

President and Chief Executive Officer
Fidelity National Home Warranty
Company

Name and Location

Principal Business Affiliation

Roger S. Jewkes
Las Vegas, Nevada

Chief Operating Officer
Fidelity National Financial, Inc.

Anthony J. Park
Jacksonville, Florida

Chief Financial Officer
Fidelity National Financial, Inc.

Raymond R. Quirk
Jacksonville, Florida

President and Chief Executive Officer
Fidelity National Financial, Inc.

Principal Officers

Name

Title

Billy D. Jensen
Charles M. Dyer^(a)

President and Chief Executive Officer
Executive Vice President and Chief
Operating Officer

Michael L. Gravelle

Executive Vice President, General
Counsel and Corporate Secretary

Cathy M. Tristant

Executive Vice President, Chief Financial
Officer, and Assistant Secretary

Marjorie R. Nemzura

Vice President and Assistant Secretary

The following changes in management occurred subsequent to the examination date:

^(a)Charles M. Dyer will retire on June 30, 2017, and will be retained as a consultant for the Company through December 31, 2017. On May 23, 2017, Natalie Beckerman was hired as Executive Vice President and Chief Operating Officer.

Management Agreements

Amended and Restated Tax Sharing Agreement: The Company and other subsidiaries file a consolidated federal income tax return with its ultimate parent, Fidelity National Financial, Inc. (FNF), pursuant to the Amended and Restated Tax Sharing Agreement (Agreement), effective December 21, 2012. Effective January 3, 2014, a First Amendment to Amended and Restated Tax Sharing Agreement (First Amendment) added National Title Insurance Company of New York as an additional subsidiary to the Agreement. Federal income taxes are paid or recovered on the basis of each entity's federal taxable income or loss. Under the terms of the Agreement, the following federal taxes were paid:

\$5,250,282 in 2011, \$2,644,810 in 2012, \$3,948,070 in 2013, \$4,334,792 in 2014, and \$7,877,641 in 2015.

During the examination, it was noted that neither the Agreement, nor the First Amendment was submitted to the California Department of Insurance (CDI) for prior approval as required by California Insurance Code (CIC) Section 1215.5(b)(4). The Company submitted the Agreement and First Amendment with the CDI on June 5, 2017. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all tax sharing agreements.

Master Services Agreement: The Company entered into a Master Services Agreement with its ultimate parent, Fidelity National Financial, Inc., and various subsidiaries, effective June 17, 2011. Under the Agreement, Fidelity National Management Services, LLC (FNMS), an affiliate, provides human resources and payroll services including allocation of salaries and administrative support to the Company. Rocky Mountain Support Services, Inc. (RMSS), another affiliate, provides general corporate services including legal, communications, advertising, regulatory, financial and other services to the Company. All services are provided at cost and there is no delegation of claims adjusting or underwriting authority, which remains with each insurer. Under the terms of the Agreement, the following fees were paid: \$13,887,176 in 2011, \$16,197,516 in 2012, \$17,339,739 in 2013, \$19,376,605 in 2014, and \$23,271,820 in 2015.

During the examination, it was noted that the First Amendment to Master Services Agreement, effective January 3, 2014, was not submitted to the CDI for prior approval as required by CIC Section 1215.5(b)(4). Subsequently, the Company submitted a new Master Services Agreement between the Company and FNF to the CDI on May 10, 2017 which supersedes the prior agreement and the amendment. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all management agreements.

Personal Property Lease: Effective March 25, 2013, a Personal Property Lease was executed between Fidelity Asset Management, Inc. (FAMI) and various subsidiaries of FNF. Under the Agreement, FAMI leases property to the subsidiaries based on the cost of the leased property purchased on behalf of each lessee and used by each lessee. During the examination, it was noted that the Company was making lease payments under the terms of this Agreement. However, the Company was not listed in the Agreement and did not sign the Agreement. The Agreement was not submitted to the CDI for prior approval as required by CIC Section 1215.5(b)(4). Subsequently, the Company submitted a new Personal Property Lease between the Company and FAMI with the CDI on May 8, 2017. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and is licensed in the following states as of December 31, 2015:

Arizona	Arkansas	California	Colorado
Florida	Georgia	Idaho	Illinois
Indiana	Kansas	Maryland	Michigan
Minnesota	Missouri	Montana	Nevada
New Jersey	North Carolina	Ohio	Oregon
Texas	Utah	Washington	

Direct contract fees written for 2015 were \$150,280,071. Of this amount, 61.7% or \$92,739,514 was written in California, 14.9% or \$22,377,627 in Texas, and 11% or \$16,669,780 in Arizona. The Company writes home protection contracts for single family homes, condominiums, town homes, mobile homes and duplex, triplex and fourplex units for a duration of twelve months. During the contract period, the Company is contracted to pay for repair or replacement of covered systems and/or appliances that experience a failure due to normal use. The Company also offers optional buyer's

coverage for an additional fee, which includes additional items not covered in the standard plan.

The Company employs five sales vice presidents and 100 sales representatives that market the home warranty contracts through real estate agents. There is also an Inbound Sales Department with 26 sales representatives that receive calls, faxes or website orders primarily from real estate agents, and 22 representatives that obtain orders through sales calls from the Company's Renewal Outbound Sales Department.

REINSURANCE

The Company does not utilize reinsurance.

ACCOUNTS AND RECORDS

Financial Statement Filing

The Company was unable to provide documentation to support an annual statement line item and another annual statement line item was misclassified. It is recommended that the Company maintain working papers to support all of its annual statement accounts and that the Company implement procedures to ensure compliance with the home warranty filing instructions. This is a repeat finding from the previous examination.

Unclaimed Property

The Company has not removed stale dated checks from its cash account and transferred them to an escheat liability account. In addition, the Company has not remitted unclaimed property to the California State Controller's Office (SCO). It is recommended that the Company set up a reserve for escheat liability and remit unclaimed property to the SCO in accordance with California Code of Civil Procedures,

Title 10, Chapter 7, Article 3, Sections 1530 and 1532. It is also recommended that the Company retain copies of filings that are submitted to the SCO.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2015

Underwriting and Investment Exhibit for the Year Ended December 31, 2015

Reconciliation of Surplus as Regards Contract Holders from December 31, 2010
through December 31, 2015

Analysis of Changes to Surplus as of December 31, 2015

Summary of Reclassifications

Statement of Financial Condition
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 82,063,233	\$ 82,063,233	
Preferred stocks	3,452,559	3,452,559	
Cash, cash equivalents and short-term investments	16,209,231	16,209,231	
Home protection contract fees receivable	2,499,977	2,499,977	
Federal income tax recoverable	967,343	967,343	(1)
Interest, dividends and real estate income due and accrued	832,364	832,364	
Other assets	<u>50,728,223</u>	<u>50,728,223</u>	(2)
 Total assets	 <u>\$ 156,752,930</u>	 <u>\$ 156,752,930</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted & unpaid or in process of adjustment		\$ 5,949,239	(3)
Claims service expenses		404,508	(3)
Other expenses		2,560,273	
Taxes, licenses and fees		773,286	
Unearned home protection contract fees		60,112,028	
Payable to parent, subsidiaries and affiliates		<u>272,963</u>	
 Total liabilities		 70,072,297	
 Common capital stock	 \$ 1,598		
Gross paid-in and contributed surplus	58,107,759		(2)
Unassigned funds (surplus)	<u>28,571,276</u>		
Surplus as regards contract holders		<u>86,680,633</u>	
 Total liabilities, surplus and other funds		 <u>\$ 156,752,930</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2015

Statement of Income

		<u>Notes</u>
Underwriting Income		
Home protection contract fees earned	\$ 146,304,582	
Deductions:		
Claims incurred	\$ 93,270,817	(3)
Claims service expense incurred	8,361,498	(3)
Other underwriting expenses incurred	<u>33,432,181</u>	
Total underwriting deductions	<u>135,064,496</u>	
Net underwriting gain	11,240,086	
<u>Investment Income</u>		
Net investment income earned	<u>\$ 1,874,108</u>	
Net investment gain	1,874,108	
<u>Other Income</u>		
Change in unrealized gain/loss bonds	<u>\$ (376,799)</u>	
Total other income	<u>(376,799)</u>	
Net income before federal income taxes	12,737,395	
Federal income taxes incurred	<u>4,565,700</u>	
Net income	<u>\$ 8,171,695</u>	

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2014	\$ 31,391,391
Net income	\$ 8,171,695
Change in nonadmitted assets	(955,288)
Capital changes:	
Transferred to surplus BPG	7,499,588
Paid-in capital	45,965,509
Surplus adjustments:	
Bond amortization	607,738
Dividends to stockholders	<u>(6,000,000)</u>
Change in surplus as regards contract holders for the year	<u>55,289,242</u>
Surplus as regards contract holders, December 31, 2015	<u>\$ 86,680,633</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2010 through December 31, 2015

Surplus as regards contract holders, December 31, 2010			\$ 19,061,706
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 38,997,320	\$	
Bond amortization	591,688		
Dividends to stockholders		24,000,000	
Change in nonadmitted assets		1,435,178	
Transferred to surplus BPG	7,499,588		
Paid-in capital	<u>45,965,509</u>	<u> </u>	
Total gains and losses	<u>\$ 93,054,105</u>	<u>\$ 25,435,178</u>	
Net increase in surplus as regards contract holders			<u>67,618,927</u>
Surplus as regards contract holders, December 31, 2015			<u>\$ 86,680,633</u>

Analysis of Changes to Surplus as of December 31, 2015

As a result of the examination, the following adjustments were made to the Company's reported balance sheet items. The Other Assets and Gross Paid-in and Contributed Surplus accounts were increased to account for the paid-in capital contribution from the Company's ultimate parent, Fidelity National Financial, Inc., to purchase BPG Holdings, LLC. The Company's reserve for claims adjusted and unpaid was tested using a 12-month loss development. Based on the results of this test, a \$1,913,852 adjustment was made to the Company's Claims Adjusted and Unpaid or in Process of Adjustment account and a \$130,129 adjustment was made to the Company's Claims Service Expenses account. The sum of the effect on surplus is shown below:

Surplus as regards contract holders, December 31, 2015, per Annual Statement			\$ 42,759,105
	<u>Increase</u>	<u>Decrease</u>	
Gross paid-in and contributed surplus	\$ 45,965,509		
Claims adjusted and unpaid		1,913,852	
Claims service expenses		130,129	
 Net increase or (decrease)			 <u>43,921,528</u>
Surplus as regards contract holders, December 31, 2015, after adjustment			 <u>\$ 86,680,633</u>

Summary of Reclassifications

<u>Annual Statement Line Item</u>	<u>Balance Per Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>
Current federal income taxes payable	\$ (967,343)		967,343
Current federal income taxes		967,343	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Federal Income Taxes Recoverable and Current Federal Income Taxes

The Company reported a negative balance for its Current Federal Income Taxes liability account. A re-classification was made to the Federal Income Tax Recoverable account to correct this error. It is recommended that the Company classify its federal income tax recoverable in accordance with the home warranty filing instructions.

(2) Other Assets and Gross Paid-In and Contributed Surplus

The Company did not report a capital contribution of \$45,965,509 from its ultimate parent, Fidelity National Financial, Inc., to purchase BPG Holdings, LLC in February 2015. An examination adjustment was made to increase the Other Assets and increase Gross Paid-in and Contributed Surplus accounts by this amount.

(3) Claims Adjusted and Unpaid or in Process of Adjustment and Claims Service Expenses

The Company's reserve for claims adjusted and unpaid was tested using a 12-month loss development. Based on the results of this test, a \$1,913,852 adjustment was made to the Company's Claims Adjusted and Unpaid or in Process of Adjustment account and a \$130,129 adjustment was made to the Company's Claims Service Expenses account.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Amended and Restated Tax Allocation Agreement – (Page 5): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all tax sharing agreements.

Management Agreements – Master Services Agreement – (Page 6): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all management agreements.

Management Agreements – Personal Property Lease Agreement – (Page 6): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

Accounts and Records – Financial Statement Filing - (Page 8): It is recommended that the Company maintain working papers to support all of its annual statement accounts and that the Company implement procedures to ensure compliance with the home warranty filing instructions.

Accounts and Records – Unclaimed Property – (Page 8): It is recommended that the Company set up a reserve for escheat liability and remit unclaimed property to the California State Controller's Office (SCO) in accordance with California Code of Civil Procedures, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. It is also recommended that the Company retain copies of filings that are submitted to the SCO.

Comments on Financial Statement Items – Federal Income Tax Recoverable (Page 14): It is recommended that the Company classify its federal income tax recoverable in accordance with the home warranty filing instructions.

Previous Report of Examination

Comments on Financial Statement Items – Bonds (Page 11): It was recommended the Company report its bonds at amortized cost per Statements of Statutory Accounting Principles (SSAP) No. 26, paragraph 7. The Company has complied with this recommendation.

Comments on Financial Statement Items – Other Assets (Page 11): It was recommended that the Company non-admit prepaid expenses in accordance with the home warranty filing instructions for completing Exhibit 1 in its Annual Statement and per SSAP No. 29, paragraph 2. It was also recommended that the Company implement procedures to ensure compliance with the home warranty filing instructions for its annual statement and the applicable SSAP's. The Company has partially complied with this recommendation.

Comments on Financial Statement Items – Other Expenses and Taxes, Licenses and Fees (Page 11): It was recommended the Company correctly classify its state premium taxes payable under Taxes, licenses and fees. The Company has complied with this recommendation.

Comments on Financial Statement Items – Dividends Declared and Unpaid to Stockholders (Page 12): It was recommended the Company report a liability for dividends declared and unpaid when declared per SSAP 72, paragraph 12.i. The Company has complied with this recommendation.

Previous Report of Examination Comment – It was recommended that the Company institute control procedures to prevent errors in the reporting of its accounts. The Company has not complied with this recommendation, as errors were noted for this examination. It is again recommended that the Company adhere to the home warranty financial statement filing instructions.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/_____

Jennifer Whitehurst, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/_____

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California