REPORT OF EXAMINATION
OF THE
FIDELITY NATIONAL
TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed June 26, 2015

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Los Angeles, California
February 27, 2015

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 TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its main administrative office located at 601 Riverside Avenue, Jacksonville, Florida 32204. The Company's statutory home office is located at 3916 State Street, Santa Barbara, California 93110.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013. 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, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of

the Company were considered in accordance with the risk-focused examination process.

This examination was a coordinated examination and was conducted concurrently with the examinations of its affiliates, Chicago Title Insurance Company, Commonwealth Land Title Insurance Company, Alamo Title Insurance, and National Title Insurance of New York, Inc., and included participation from the states of Nebraska, Texas, and New York. Nebraska served as the lead state in this coordinated exam.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

SUBSEQUENT EVENTS

The Company is party to various management agreements with its affiliates as noted in the Management Agreement section. Subsequent to the examination date, the following amendments were made to these agreements: (1) The Master Service Agreement was amended as of January 3, 2014 to include the acquisition of National Title Insurance of New York, Inc. The California Department of Insurance (CDI) approved the First Amendment to the Master Service Agreement on January 31, 2014. (2) The Tax Sharing Agreement was amended as of January 3, 2014 to include the acquisition of National Title Insurance of New York, Inc. The CDI approved this amendment to the Tax Sharing Agreement on January 31, 2014. (3) The Allocation Agreement was amended as of January 3, 2014 to include the acquisition of the National Title Insurance of New York, Inc. The CDI approved this amendment to the Allocation Agreement on January 31, 2014. (4) The Title Plant Agreements were amended as of June 2, 2014 to update current Fidelity National Financial, Inc. (FNF) affiliates and allow for renegotiation every three years with written notice. The CDI

approved this amendment on June 23, 2014. (5) The Master Loan Agreement was terminated on October 2, 2014.

COMPANY HISTORY

On December 31, 2010, as part of an internal company reorganization, Chicago Title and Trust Company contributed its subsidiary, FNF Control I, Inc., all of the stock of the Company. On January 31, 2011, through a series of transactions, FNTG Holdings, LLC (FNTGH) (formerly FNF Control I, Inc.) became a subsidiary of Fidelity National Financial, Inc. (FNF). FNTGH contributed all of the stock of the Company to its subsidiary, Fidelity National Title Group, Inc. (FNTG). Since January 31, 2011, the Company has been a direct subsidiary of FNTG.

Capitalization

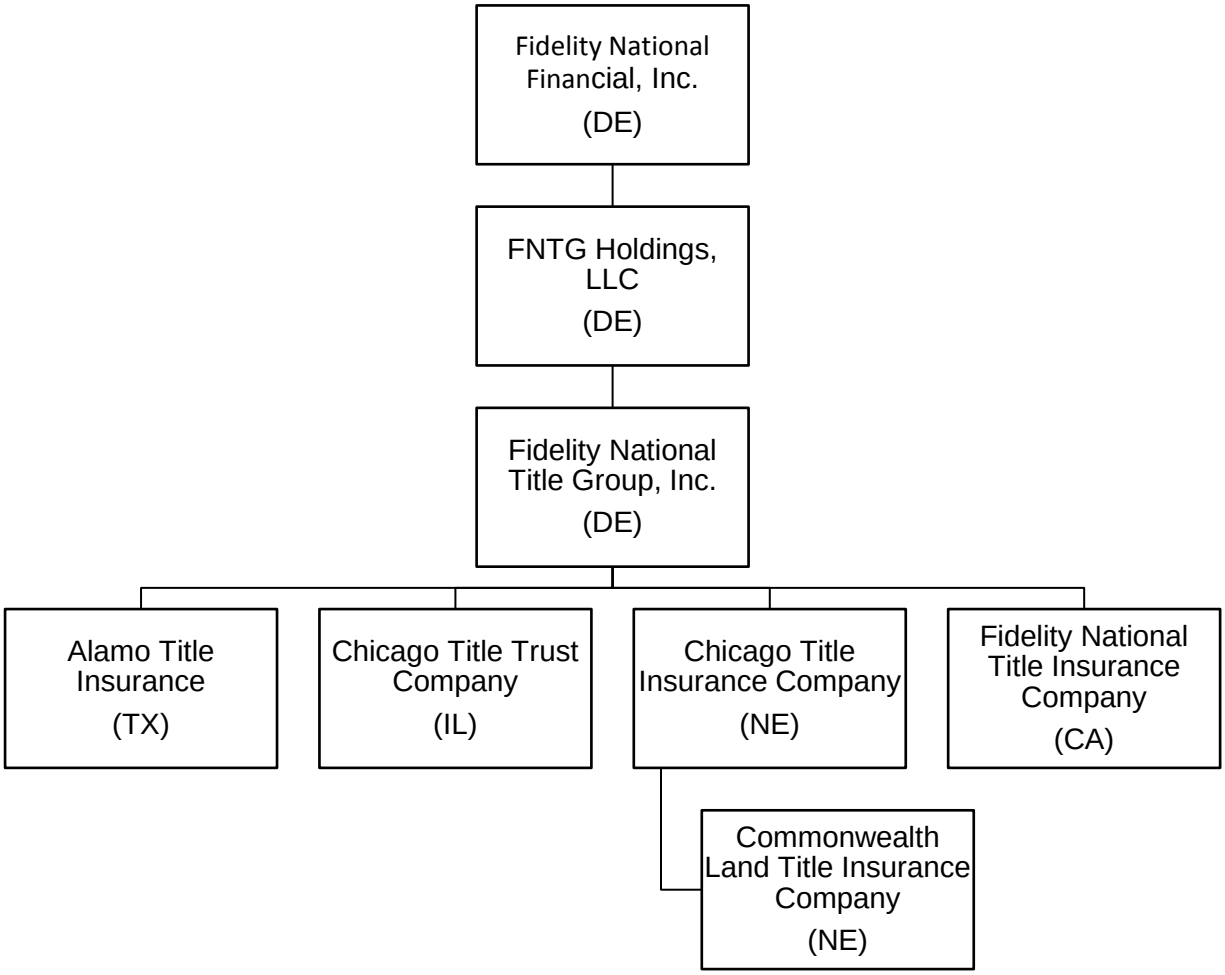
The Company is authorized to issue 5 million shares of common stock with a par value of $170 per share. As of December 31, 2013, there were 447,835 shares outstanding.

Dividends Paid to Parent

In 2013, the Company declared and paid $75,000,000 in ordinary cash dividends to its parent, FNTG.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the title insurance companies of Fidelity National Financial, Inc., (FNF) depicts the Company's relationship within the holding company system as of December 31, 2013 (all ownership is 100%):



Members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2013:

Directors

Name and Location	Principal Business Affiliation
Michael L. Gravelle Jacksonville, Florida	Executive Vice President General Counsel, and Corporate Secretary Fidelity National Title Group, Inc.
Anthony J. Park Jacksonville, Florida	Executive Vice President and Chief Financial Officer Fidelity National Title Group, Inc.
Raymond R. Quirk Jacksonville, Florida	President and Chief Executive Officer Fidelity National Title Group, Inc.

Principal Officers

Name	Title
Raymond R. Quirk	President and Chief Executive Officer
David A. Brown	President, Default Resolution Network Division
Mathew G. Fortier	President and State Manager
Cynthia L. Fried	President and County Manager
May Lou Paulk	President and County Manager
Roger S. Jewkes	President, Western Operations
Michael J. Nolan	President, Eastern Operations
Erika Meinhardt	President, National Agency Operations
Anthony J. Parks	Executive Vice President and Chief Financial Officer
Paul I. Perez	Executive Vice President
Gary R. Urquhart	Executive Vice President
Peter T. Sadowski	Executive Vice President
Kevin D. Lutes	Executive Vice President
Donald E. Partington	Executive Vice President
Joe A. Reinhardt	Executive Vice President
Larry S Tuliszewski	Executive Vice President
John A. Wunderlich	Executive Vice President
Gary L. Carr	Executive Vice President
Sue E. Jackson	Executive Vice President
James H, Kay Jr.	Executive Vice President
John M. Obzud	Executive Vice President

Name	Title
Darryl J. Tyson	Executive Vice President
Paul D. Defalco	Executive Vice President
Charles H. Wimer	Executive Vice President
Michael L. Gravelle	Executive Vice President, General Counsel, and Corporate Secretary
Joseph W. Grealish	Executive Vice President
Steve G. Day	Executive Vice President
James Michael John	Executive Vice President
Daniel K. Murphy	Senior Vice President and Treasurer

Management Agreements

Master Services Agreement: Effective March 12, 2003, the Company and certain affiliates entered into a Master Services Agreement with its ultimate parent, FNF. Under terms of the Agreement, the Company received from affiliates the following services: underwriting, claims settlement, payroll, legal, advertising, investment services administrative and personnel services, and information technology. The Agreement limited compensation for services to reimbursement of actual expenses, and these fees incurred were settled on a monthly basis with FNF. On April 5, 2011, the Company filed a “Form D” with the California Department of Insurance (CDI) related to a proposed replacement of the Master Service Agreement.

Effective June 17, 2011, the Company and certain affiliates entered into the new Master Service Agreement with their ultimate parent, FNF, and its affiliates, Chicago Title and Trust Company, certain indirect insurance corporations of FNF, Fidelity National Management Services, LLC (FNMS), and Rocky Mountain Support Services, Inc. (RMSS). The CDI approved the 2011 agreement on July 18, 2011. Under the terms of the Agreement, FNMS administers payroll and RMSS provides general corporate services including, but not limited to: legal, communications, advertising, regulatory, financial, claims administration, general administrative, investment services, benefits administration, management reporting, marketing, administrative support, human resources and information technology. The Agreement limits compensation for services to reimbursement of actual expenses. All charges are settled monthly on a pass-

through basis with FNF. For 2011, 2012 and 2013, the Company paid $279,999,384, $187,422,410, and $190,238,119, respectively, in fees to FNF under the terms of this Agreement.

On November 22, 2013, the Company filed a “Form D” related to a proposed First Amendment to the Master Service Agreement. The amendment removed Fidelity National Insurance Company, Fidelity National Property and Casualty Company, and Fidelity National Indemnity Insurance Company and added National Title Insurance of New York, Inc. to the 2011 Agreement.

Tax Sharing Agreement: The Company and its affiliates were part of a Tax Sharing Agreement with their ultimate parent, FNF, effective August 21, 2009. The Agreement was approved by the CDI July 22, 2009. The holding company was restructured during 2010 and Chicago Title and Trust is no longer the Company’s parent. On May 11, 2012, the Company submitted a “Form D” filing to the CDI with respect to a proposed Amended and Restated Tax Sharing Agreement, which was approved by the CDI on June 13, 2012. On November 15, 2012, the Company submitted a “Form D” filing to the CDI with respect to a revised proposed Amended and Restated Tax Sharing Agreement, which was approved by the CDI on December 12, 2012. Effective December 21, 2012, the Company and its affiliates entered into the Amended and Restated Tax Sharing Agreement with their ultimate parent, FNF. The Agreement states that the separate company tax liability for each subsidiary is determined by FNF, with the cooperation and assistance of the subsidiary, in a manner consistent with general tax accounting principles, the Internal Revenue Code and regulations thereunder and, so long as a reasonable legal basis exits therefore, prior custom and practice. Tax payments are due to FNF no later than 90 days after the filing of any federal income tax return of the FNF Group that includes such subsidiary, and FNF will pay each subsidiary the amount due to such subsidiary no later than 90 days after the filing of any federal income tax return of the FNF Group that includes such subsidiary. The Company indicated that it paid/(recovered) the following amounts related to income taxes during the examination period.

Year	Amount
2011	($ 15,855,526)
2012	($ 29,878,540)
2013	$ 60,438,085

Support Services Cost Sharing Agreement: Effective April 26, 2011, the Company is a party to a Support Services Cost Sharing Agreement with Chicago Title Insurance Company (CTIC) and other affiliates, whereby CTIC performs certain non-core support functions for the parties, which facilitate the escrow and closing services provided by the parties in connection with their issuance of title insurance policies. Costs for such functions are allocated on a pass-through basis. The CDI approved Agreement on March 23, 2011. For 2011, 2012, and 2013, the Company paid $318,660, $655,900, and $655,098, respectively, in fees to CTIC under the terms of this agreement.

Title Plants Agreement: Effective March 4, 2005, the Company is party to several Title Plant Agreements with Property Insight, LLC (PI) whereby PI provides title maintenance, technology, and construction of the Company's title plant assets. The Company pays PI market based access fees and PI pays a royalty fee to the Company for usage of the data. The CDI approved these Agreements on February 24, 2005. On August 31, 2007, the Company became a 39% owner of PI. These Agreements were amended and restated as of June 2, 2014 to update current FNF affiliates and to allow for renegotiations every three years. The CDI issued a "non-disapproval" letter on June 23, 2014.

Master Loan Agreement: Effective December 28, 2000, the Company entered into a Master Loan Agreement with its ultimate parent, FNF, whereby the Company and its affiliates have agreed to loan FNF funds on an as needed basis. There were no reported outstanding loans under the Agreement during the examination period.

Personal Property Lease Agreement: Effective March 25, 2013, the Company and

certain affiliates renewed their Personal Property Lease Agreement with Fidelity Asset Management, Inc. (FAMI). The agreement had been previously renewed by the affiliated parties on January 1, 2008. On March 25, 2013, the CDI provided its approval of the Agreement. The Agreement provides a cost allocation basis of payments for rental purchased by FAMI and used by the parties to the Agreement. Under the terms of this Agreement, the Company made payments to FAMI in the amount of $1,539,069, $1,115,560, $902,426, for the years 2011, 2012, and 2013, respectively.

Allocation Agreement: Effective November 21, 2013, the Company and its affiliates entered into an Allocation Agreement relating to its excess of loss reinsurance program with its ultimate parent, FNF. The Agreement authorizes FNF to negotiate and enter into contracts to establish excess of loss coverage, make payments, coordinate claim administration, handle reporting and arbitration, matters, and collect and allocate excess of loss recoveries. The annual cost of the Agreement is allocated between the Company and its affiliates based on a pro rata share gross net written premium for each party to the Agreement. Allocation of recoveries under the excess of loss program will be allocated to the entity that paid the losses in connection with the claim, or based on the entity's proportion of the loss payment if more than one entity paid the losses in connection with the claim. FNF is not compensated beyond the annual cost of establishing the excess of loss program by the Company or its affiliates for providing these services.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact title insurance business and to provide escrow and other services to real estate property buyers and mortgage lenders. The Company is licensed in the states as follows:

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

The Company is also licensed in the District of Columbia, the Bahamas, Guam, Puerto Rico, and the U.S. Virgin Islands. During the examination period, the company withdrew its license in Canada, effective December 20, 2013.

The Company issues title insurance policies through direct operations, a network of both affiliated and non-affiliated title agents, and underwritten title operations.

During 2013, the Company wrote approximately $1.5 billion of direct premiums, with the majority of the direct premiums written in the following states: $246 million in Texas; $215 million in California; $132 million in New York; and $110 million in Florida. The remaining premiums were written in other states and jurisdictions.

REINSURANCE

Assumed

The Company assumes a relatively small amount of business as compared to its direct writings (less than one percent). The assumed transactions are on a facultative basis.

Ceded

The Company also cedes an insignificant amount of business as compared to its direct writings (less than one percent). The majority of the ceded reinsurance premium resulted from facultative transactions.

The Company's ultimate parent Fidelity Financial, Inc., (FNF) entered into two excess of Loss Reinsurance Contracts with various reinsurers on behalf of the Company and other subsidiaries and affiliates of FNF. Coverage is shared by the Company and other subsidiaries and affiliates of FNF. The contract provides coverage on a loss occurrence basis for the Company and its affiliates, regardless of the number of policies contributing to the ultimate net loss. The losses are covered based upon the date reported to the reinsurer.

The following is a summary of reinsurance contracts as of December 31, 2013.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
First Excess of Loss First Layer	Authorized Various Lloyds Underwriter Syndicates (45.33%) Lexington Insurance Company (2%) Hannover Ruckversicherung (12.5%) Aspen Insurance UK Limited (6.67%) Unauthorized XL Re Ltd. (4%) Amlin AG (1.5%) AXIS Specialty Limited (15%) Catlin Insurance Co. Ltd. (.5%) IAT Reinsurance Company, Ltd (12%)	$20 million	$30 million excess, each and every loss occurrence, $60 million as respect all loss occurrences during the term of the Contract
Second Layer	Authorized Various Lloyds Underwriter Syndicates (44.25%) Lexington Insurance Company (5%) Hannover Ruckversicherung (18.5%) Montpelier Reinsurance, Ltd. (1.25%) Aspen Insurance UK Limited (2%) Unauthorized Arch Re (1%) Amlin AG (1%) AXIS Specialty Limited (15%) Catlin Insurance Co. Ltd. (.5%) Renaissance Reinsurance, Ltd. (2.5%) Swiss Re Europe S.A. (5%) XL Re Ltd. (4%)	$50 million	$50 million excess each and every occurrence, each $100 million as respect all loss occurrences during the term of the Contract

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second Excess of Loss First Layer	Authorized Lexington Insurance Company (5%) London Syndicates no. 0033 HIS (.875%) Montpelier Reinsurance, Ltd. (4.167%) Renaissance Reinsurance, Ltd. (10%) Aspen Insurance UK Limited (2.33%) Unauthorized HCC Reinsurance Company, Ltd. (33.33%) Swiss Re Europe S.A. (10%) Allianz Risk Transfer AG (3.333%) Endurance Special Insurance Ltd. (3.333%) Arch Re (3.334%) AXIS Specialty Limited (4.33%) Catlin Insurance Company, Ltd (.833%)	$100 million plus 19.13% of $600 million	$300 million excess, each and every loss occurrence, $600 million as respect all loss occurrences during the term of the Contract

As of December 31, 2013, the Company reported reinsurance recoverables on paid losses of $89,004 and reinsurance recoverables on unpaid losses of $2,835,444.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 1,036,710,733	$	$ 1,036,710,733	
Preferred stocks	42,413,304		42,413,304	
Common stocks	32,753,186		32,753,186	
Mortgage loans on real estate:				
First liens	1,929,537	653,440	1,276,097	
Other than first liens	361,647	361,647		
Real Estate:				
Properties occupied by the company	56,077		56,077	
Properties held for sale	2,458,725	314,429	2,144,296	
Cash, cash equivalents and short-term investments	31,652,846		31,652,846	
Other invested assets	39,968,854	34,182,574	5,786,280	
Receivable for securities	8,300		8,300	
Title plants	31,685,706		31,685,706	
Investment income due and accrued	12,675,607		12,675,607	
Premiums and agents' balances in course of collection	52,553,229	28,258,784	24,294,445	
Amount recoverable from reinsurers	89,004		89,004	
Current federal and foreign income tax recoverable and interest thereon	3,333,216		3,333,216	
Net deferred tax asset	99,285,456	51,359,846	47,925,610	
Electronic data processing equipment and software	50,160		50,160	
Furniture and equipment, including health care delivery assets	30,891	30,891		
Receivable from parent, subsidiaries and affiliates	24,522,309		24,522,309	
Aggregate write-ins for other than invested assets	50,721,086	38,858,000	11,863,086	
Total assets	$ 1,463,259,873	$154,019,611	$ 1,309,240,262	

Liabilities, Surplus and Other Funds			
Known claims reserve		$ 96,544,417	(1)
Statutory premium reserve		696,145,935	
Other expenses		30,269,094	
Taxes, licenses and fees		19,557,618	
Provision for unauthorized and certified		184,000	
Payable to parent, subsidiaries and affiliates		73,730	
Aggregate write-ins for liabilities		5,425	
Total liabilities		842,780,219	
Common capital stock	$ 76,131,950		
Surplus note	30,000,000		
Gross paid-in and contributed surplus	232,556,721		
Unassigned funds (surplus)	127,771,372		
Surplus as regards policyholders		466,460,043	
Total liabilities, surplus and other funds		$1,309,240,262	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Operating Income		
Title insurance premiums earned	$ 1,536,269,012	
Escrow and settlement services	6,625,228	
Other title fees and service charges	94,282,094	
Total operating income		$ 1,637,176,334
Deductions:		
Losses and loss expenses incurred	$ 157,818,130	
Operating expenses incurred	1,397,521,927	
Total operating deductions		1,555,340,057
Net underwriting income		81,836,277
Investment Income		
Net investment income earned	$ 40,757,049	
Net realized capital gain	9,889,717	
Net investment gain		50,646,766
Other Income		
Aggregate write-ins for miscellaneous income	$ (49,152)	
Total other losses		(49,512)
Net income before federal income taxes		132,433,531
Federal and foreign income taxes incurred		14,550,627
Net income		$ 117,882,904

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 447,201,783
Net income	$ 117,882,904	
Change in net unrealized capital losses	(8,914,648)	
Change in net unrealized foreign exchange capital loss	(370,450)	
Change in net deferred income tax	(17,365,308)	
Change in nonadmitted assets	3,209,762	
Change in provision for reinsurance	(184,000)	
Dividends to stockholders	(75,000,000)	
Change in surplus as regards policyholders for the year		19,258,260
Surplus as regards policyholders, December 31, 2013		$ 466,460,043

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

	Gain in Surplus	Loss in Surplus	Notes	
Surplus as regards policyholders, December 31, 2010 per Examination				$ 186,849,066
Net income	$ 254,843,546	$		
Net unrealized capital gains		28,112,008		
Change in net foreign exchange capital losses		371,738		
Change in net deferred income tax		98,170,033		
Change in nonadmitted assets	187,045,558			
Cumulative effect of changes in accounting principles	67,720,250			
			(2)	
Change in provision from unauthorized and certified reinsures		184,000		
Dividends to stockholders		75,000,000		
Aggregate write-ins for losses in surplus		28,160,598		
Total gains and losses	$ 509,609,354	$ 229,998,377		
Net decrease in surplus as regards policyholders				279,610,977
Surplus as regards policyholders, December 31, 2013, per Examination				$ 466,460,043

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claims Reserve

The Nebraska Department of Insurance (DOI) performed an independent review of the Company's reported Incurred but Not Reported (IBNR) and Known Claims Reserve (KCR), including indicated bulk reserves, (collectively, *Schedule P Reserve*) to verify that the reserves were sufficient, to test the reasonableness of the appointed actuary's IBNR allocation, and to evaluate the factors that led to adverse development from 2011 to 2013. The California Department of Insurance (CDI) Actuary performed a peer review of the work performed by the Nebraska DOI.

Incurred But Not Reported

The examination actuary's analysis indicated that the Company's recorded Schedule P Reserve was only 98% of the examination actuary's indication, or $14 million less than the examination actuary's indication. The examination team noted that the Company reported the Schedule P Reserve within 1% of the appointed actuary's midpoint estimate; however, the examination actuary disagreed with the appointed actuary's methods and assumptions in calculating the reserve. The examination actuary has concerns with the appointed actuary's data, aggregation, and estimated IBNR due to a recent history of development exceeding the appointed actuary's expectations. The examination actuary observed the allocation process utilized by the appointed actuary produced volatility in the Company's IBNR estimates that resulted in unfavorable development during the examination period. The examination actuary also observed that the Fidelity National Title Group insurers' reserves do not behave as one. The allocation process utilized by the appointed actuary is not consistent with the insurers' contrasting revenue growth rates and the differences in the insurers' historical loss and allocated loss adjustment expense development.

It is recommended that a separate actuarial analysis for each Company be performed in support of each Company's Statement of Actuarial Opinion. It is also recommended that the Group's appointed actuary perform annually a one-year and two-year "actual versus expected" analysis separately for each company in the Group, and apply the resulting insights to focus review on the actuarial methods and assumptions associated with the largest variances between expectations and actual outcomes.

Case Reserves

The examination noted that the Company does not have effective internal control processes to record timely, apply consistently, and evaluate adequacy of case reserves which are required by California Insurance Code Section 12388 (2) and Statement of Statutory Accounting Principle SSAP Number 57. Historically, the reported case reserves of the Company have generally been under-estimated, so subsequent adverse development has diminished or eliminated the cushion between the reported Schedule P Reserve and the sum of the reported Statutory Premium Reserve and the Known Claim Reserves. Moreover, not recording sufficient Known Claim Reserves has also contributed to adverse development in the Schedule P Reserve.

It is recommended that the Company implement effective internal control processes to strengthen case reserve adequacy, and require that claims administrators record known claim reserve estimates based upon their current assessment of all relevant exposures on all known claims.

Supplemental Reserves

As a result of the examination actuary's analysis of IBNR, a supplemental reserve was not required as of December 31, 2013. The examination actuary will be performing an analysis as of December 31, 2014, to determine if a supplemental reserve is required.

(2) Cumulative Effect of Change in Accounting Principles

In 2012, the Company received approval from CDI for a permitted accounting practice which allowed the Company to account for bulk reserves with IBNR instead of Known Claims Reserves as required in the Statement of Statutory Accounting Principle (SSAP) Number 57. The Company reduced its bulk reserves by $104,185,000 and reported the effect, net of tax for $36,464,750, as a change in accounting principle in the amount of $67,720,250 in surplus in 2012.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Known Claims Reserve – Incurred But Not Reported (Page 17): It is recommended that a separate actuarial analysis for each of the Company's be performed in support of each Company's Statement of Actuarial Opinion. It is also recommended that the Group's appointed actuary perform annually a one-year and two-year "actual versus expected" analysis separately for each company in the Group, and apply the resulting insights to focus review on the actuarial methods and assumptions associated with the largest variances between expectations and actual outcomes.

Comments on Financial Statement Items – Known Claims Reserve – Case Reserves (Page 18): It is recommended that the Company implement effective internal control processes to strengthen case reserving adequacy, and require that claims administrators record case reserve estimates based upon their current assessment of all relevant exposures on all known claims.

Previous Report of Examination

Company History (Page 3) – It was recommended that the Company institute procedures to assure proper approvals of dividends and or reductions to its capital accounts are obtained. The Company has complied with this recommendation.

Management and Control – Management Agreements – Master Loan Agreement (Page 8): It was recommended that the Company establish procedures to ensure its affiliated transactions are accurately disclosed in its insurance holding company registration statement in accordance with California Insurance Code (CIC) Section 1215.4(b)(4). The Company has complied with this recommendation.

Management and Control – Related Party Transactions (Page 10): It was recommended that the Company establish procedures to ensure that affiliated transactions are fair and reasonable in accordance with Statement of Statutory Accounting Principles (SSAP) Number 25 paragraphs 11 – 15. The Company has complied with this recommendation.

Corporate Records (Page 10): It was recommended the Company submit future changes to its common stock and gross paid-in capital to the California Department of Insurance (CDI) in a timely manner as required by CIC Section 827.3(b)(3). The Company has complied with this recommendation.

Reinsurance - Ceded (Page 13): It was recommended that the Company amend the reinsurance contracts to ensure compliance with Statement of Statutory Accounting Principles (SSAP) Number 62 paragraphs 9. The Company has complied with this recommendation.

Comments on Financial Statement Items – Net Deferred Tax Assets (Page 21): It was recommended the Company implement procedures so that any future tax planning strategy is adequately documented, prudent and feasible, and the use of the tax

strategy is not inconsistent with assumptions inherent in statutory or other accounting basis financial statements, with management's business plan objectives. It was recommended that the Company comply with SSAP Number 10 regarding the admissibility of Net Deferred Tax Assets. The Company has complied with this recommendation.

Comments on Financial Statement Items – Known Claims Reserve and Supplemental Reserve (Page 22): It was recommended that the Company obtain and make available loss data specific to and segregated by each legal entity in all future financial statements. It was also recommended that the Company further validate management's select point for each underwriter by enhancing the detail and underlying support to management's assertions in selecting their estimate or record the actuary's best estimate. The Company's response to the prior examination recommendations were received by the CDI shortly after completion of that examination. The follow up and verification of the adequacy of any responses was conducted during the current examination. During the current examination, the Company's process as stated in its response was verified but deficiencies were still noted pertaining to the review of reserves and prior examination recommendations. These items are further discussed with the "Summary of Comments and Recommendations – Current Report of Examination" section.

ACKNOWLEDGMENT

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

Respectfully submitted,

____/S/_____

Eric C. Dercher, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California