

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

First American Title Insurance Company
NAIC #50814

1 First American Way
Santa Ana, CA 92707

As of

December 31, 2017

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

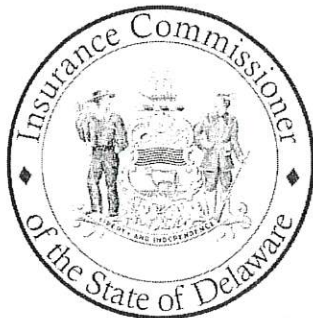
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2017 on

First American Title Insurance

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in blue ink, appearing to be "Trinidad Navarro", written over a horizontal line.



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29 day of August, 2019.

A handwritten signature in blue ink, "Trinidad Navarro", written over a horizontal line.
Trinidad Navarro
Insurance Commissioner

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

**REPORT ON EXAMINATION
OF THE
First American Title Insurance**

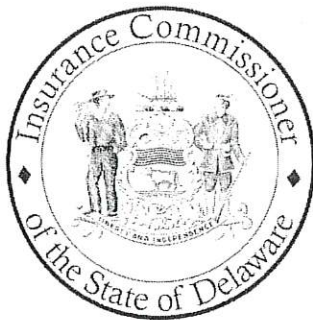
AS OF

December 31, 2017

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 29 day of August, 2019.

Trinidad Navarro

Trinidad Navarro
Insurance Commissioner

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Exam Authority Number 50814-18-701, and pursuant to statutory provisions including 18 *Del. C.* §§ 318 - 322, a market conduct examination has been conducted of the affairs and practices of:

First American Title Insurance NAIC #50814

The examination was performed as of December 31, 2017.

The examination consisted of an off-site phase which was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination of First American Title Insurance Company, hereinafter referred to as First American, or the Company, was announced as part of a series of examinations of companies in the title insurance marketplace in Delaware. The examination focused on the Company's title insurance business in the following areas of operation: Company Operations and Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, and Claims.

All exceptions noted were in the area of Underwriting and Rating. Producer Licensing was reviewed in conjunction with Underwriting and Rating – New Business.

The following exceptions were noted.

- 5 Exceptions
18 *Del. C.* § 1703 - License required.
A person shall not transact insurance in this State for any class or classes of insurance unless the person is licensed as an insurance producer, adjuster or appraiser for that line of authority in accordance with this chapter.

The Company accepted business from a producer who was not properly licensed.

- 30 Exceptions
18 *Del. C.* § 1715(a) – (b) – Appointments.
(a) An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.
(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.

The Company accepted business from a producer who was not properly appointed.

- 1 Exception
18 *Del. C.* § 2517 – Adherence to Filings
No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or § 2509 (excess rates) of this title. This section shall not apply to contracts or policies for inland marine risks as to which filings are not required.

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The Company issued a contract or policy for which the premium charged was not in accordance with filed rates.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318 - 322 and covered the experience period of January 1, 2016 through December 31, 2017, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with applicable Delaware laws and regulations.

The examination was a targeted market conduct examination of the Company's title insurance business in the following areas of operation: Company Operations and Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, and Claims.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners reported on the errors found in individual files, the examiners also focused on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested, as warranted, to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries of the exceptions found.

COMPANY HISTORY AND PROFILE

First American's corporate roots date back to 1889 when Orange County, California split off from the county of Los Angeles, California. At that time, two firms opened to handle title matters in Orange County, California and shortly thereafter merged into a single entity known as Orange County Title Company. Orange County Title Company was one of the first abstract companies to qualify to issue policies of title insurance in California. After expanding beyond the Orange County, California market, Orange County Title Company became First American. In 2014, First American became a Nebraska domiciled domestic insurer. First American now serves every region of the country.

First American issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. In certain states in connection with certain transactions, First American also provides escrow and closing services; accommodates tax deferred exchange of real estate; maintains, manages and provides access to title plant records and images and provides banking, trust and investment advisory services. First American transacts its title insurance business through a network of direct operations and agents. Through this network, First American issues policies in the 49 states that permit the issuance of title insurance policies, the District of Columbia, and other U.S. territories.

First American's main administrative office is located in Santa Ana, California. First American's employees are located in offices throughout the country, except in the State of Iowa.

First American is a wholly-owned subsidiary of First American Financial Corporation (FAFC). FAFC was incorporated in the state of Delaware in January 2008 to serve as the holding company of The First American Corporation's (FAC) financial services businesses following the separation of those businesses from FAC. After the separation, FAC reincorporated in Delaware and assumed the name CoreLogic, Inc. The separation was consummated on June 1, 2010, at which time FAFC's common stock was listed on the New York Stock Exchange under the ticker symbol "FAF." The Corporation's Form A, Application of Consent of Reorganization, was approved by the California Department of Insurance on May 18, 2010.

FAFC is a publicly traded general business corporation, which is engaged in the business of providing financial services through its title insurance and services segment and its specialty insurance segment. The title insurance and services segment provides title insurance, escrow or closing services, and similar or related financial services domestically and internationally in connection with residential and commercial real estate transactions. It also maintains, manages, and provides access to title plant records and images and provides banking, trust, and investment advisory services. The specialty insurance segment issues property and casualty insurance policies and sells home service contracts.

According to the 2016 Annual Statement, the Company reported direct premiums written

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in the amount of \$4,308,678 for direct operations and \$11,097,985 for agency operations in the state of Delaware. The Company reported direct premiums written in 2016 in the amount of \$589,288,679 for direct operations and \$2,843,013,904 for agency operations in the United States, the United States territories, and Canada.

According to the 2017 Annual Statement, the Company reported direct premiums written in the amount of \$4,684,263 for direct operations and \$13,423,553 for agency operations in the state of Delaware. The Company reported direct premiums written in 2017 in the amount of \$858,383,099 for direct operations and \$2,664,737,598 for agency operations in the United States, the United States territories, and Canada.

COMPANY OPERATIONS AND MANAGEMENT

The Company provided information documenting its management and operational procedures for the lines of business conducted in the state of Delaware. The operations and management documentation included the following categories:

- Corporate Minutes
- Title Plant, TPA, and Third-Party Vendors
- Audited Financial Statements
- Disaster Recovery Plan
- Consumer Privacy
- Company History

The documents were reviewed to determine compliance with Delaware laws and regulations.

No exceptions were noted.

COMPLAINT HANDLING

The Company was not aware of any consumer complaints lodged against it within the examination period relating to its operations in Delaware. There were no complaints reported to the Delaware Department of Insurance. The Company's definition of "complaint" and the Company's complaint handling guidelines were reviewed in regard to complaint handling. The information was reviewed to determine compliance with applicable Delaware laws and regulations.

No exceptions were noted.

MARKETING AND SALES

Delaware is an “attorney state” as it relates to title insurance business. The Company’s marketing and sales materials are distributed through the Company’s electronic interface to independent agents in Delaware. First American employs one sales associate in Delaware who is primarily responsible for marketing to the Company’s independent title insurance agents. The sales associate is also responsible for providing training and support to those agents in utilization of the Company’s electronic interface. In addition to the marketing and sales materials distributed through the electronic interface, some advertising materials periodically prepared by national operations may have been disseminated in Delaware.

The Company provided a total of 904 marketing materials for review, many of which were duplicates. The materials were reviewed to determine compliance with 18 *Del. C.* 2304 – Unfair methods of competition and unfair or deceptive trade practices defined.

No exceptions were noted.

PRODUCER LICENSING

For examination purposes, producer licensing and appointment were reviewed in conjunction with Underwriting and Rating – New Business.

Licensing and appointment exceptions are addressed in the Underwriting and Rating section.

POLICYHOLDER SERVICES

Due to the nature of title insurance in Delaware, the Company does not have a formal written policy in place governing its procedures for handling general consumer inquiries or requests for information, aside from those policies that are specific to consumer complaints and claims. Absent formal written procedures, the Company’s policy is to be “readily available for general consumer inquires and requests for information, and to respond promptly and in a comprehensive manner.” For example, the Company’s website provides a toll free and local telephone number that directs inquiries to First American’s corporate headquarters switchboard, where receptionists are trained to listen for key words or phrases that prompt routing of the call to the appropriate individual or department. First American’s website, at the “Contact Us” tab, offers both a feedback section, where questions or comments about the Company’s products and services are welcome, and a contact section, which directs the inquirer to the appropriate individual or department to start a conversation.

No exceptions were noted.

UNDERWRITING AND RATING

The Company identified a universe of 19,950 agent-issued new policies and 34 new policies issued by direct operations during the experience period. A random sample of 116 agent-issued policies was requested, received, and reviewed. All 34 of the policies issued by direct operations were requested, received, and reviewed. The files were reviewed to determine compliance with applicable Delaware laws and regulations.

The following exceptions were noted:

5 Exceptions - 18 Del. C. § 1703 - License required.

The Company accepted business from a producer who was not duly licensed.

Recommendation: It is recommended the Company revise its procedures to ensure producers are properly licensed in compliance with 18 Del. C. § 1703.

30 Exceptions - 18 Del. C. § 1715 - Appointments.

The Company accepted business from a producer who was not properly appointed by the Company.

Recommendation: It is recommended the Company revise its procedures to ensure producers are properly appointed in compliance with 18 Del. C. § 1715.

1 Exception - 18 Del. C. § 2517 - Adherence to filings.

The Company charged a premium that was inconsistent with filed rates in effect at the time of policy issuance.

Recommendation: It is recommended the Company revise its procedures to ensure premiums charged are consistent with filed rates in compliance with 18 Del. C. § 2517.

CLAIMS

The Company identified a universe of 97 Open/Denied Claims, 12 Paid Claims, and 42 Closed Without Pay Claims. A random sample of seventy-six (76) Open/Denied claim files was requested, received, and reviewed. All of the Paid and Closed Without Pay claim files were requested, received, and reviewed. The files were reviewed for compliance with applicable Delaware laws and regulations.

No exceptions were noted:

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CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended the Company revise its procedures to ensure producers are properly licensed in compliance with 18 *Del. C.* § 1703. (Underwriting and Rating).
2. It is recommended the Company revise its procedures to ensure producers are properly appointed in compliance with 18 *Del. C.* § 1715. (Underwriting and Rating).
3. It is recommended the Company revise its procedures to ensure premiums charged are consistent with filed rates in compliance with 18 *Del. C.* § 2517. (Underwriting and Rating).

The examination was conducted by Joseph Krug, Steve Misenheimer, and Linda Armstrong.

The report of examination herein is respectfully submitted.



Linda Armstrong, JD, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance