

**REPORT ON THE LIMITED SCOPE EXAMINATION**

**O F**

**K.E.L. TITLE INSURANCE GROUP, INC.**

**ORLANDO, FLORIDA**

**OF THE FINANCIAL AND CORPORATE AFFAIRS**

**AS OF**

**DECEMBER 31, 2010**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida  
October 28, 2011

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316 and Chapter 627, Florida Statutes, and Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination, of the financial and corporate affairs as of December 31, 2010 of:

**K.E.L. TITLE INSURANCE GROUP, INC.  
111 NORTH MAGNOLIA AVENUE, SUITE 1500  
ORLANDO, FLORIDA 32801**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination was a limited scope examination which covered a year period from January 1, 2010 to December 31, 2010. In accordance with the 2010 edition of the NAIC Financial Condition Examiners Handbook, this limited scope examination covered Corporate Governance and the determination of the adequacy of the Company's loss reserves consistent with Statutory Accounting Principles and annual statement instructions. Where applicable, the Florida Insurance Laws, Regulations, and guidelines will be considered. The field work commenced on September 12, 2011, and concluded as of October 28, 2011.

This report of examination was confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 24, 2007, and commenced business on July 6,

2007 as K.E.L. Title Insurance Group, Inc. The Company engages in the business of underwriting land title insurance for owner's and mortgagees as a primary insurer. Title insurance protects against loss or damage resulting from title defects that affect real property.

The Company was party to Consent Order 89839-07 CO filed April 20, 2007, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the Consent Order.

The Company was examined during each of the previous two years. This was the third year examination of the Company since its inception.

The Company was authorized to transact the business of title insurance only in Florida as of December 31, 2010.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### **Dividends to Stockholders**

There were no dividends declared or paid by the Company during the period under examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	9,508
Total common capital stock	\$ 9,508
Par value per share	\$ 1.00

Control of the Company was maintained by its three shareholders; Matthew S. Englett, Craig R. Lynd, and Jeffrey S. Kaufman. Each had an ownership interest of 33.33% of the Company's issued and outstanding stock.

## **Surplus Debentures**

The Company had no surplus debentures.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance**

There were no Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance.

## **CORPORATE RECORDS**

The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events.

## **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## MANAGEMENT AND CONTROL

### Management

Members of the Board of Directors were elected by the then existing Board and serving as of December 31, 2010, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Matthew Shane Englett Windermere, Florida	Managing Partner, Kaufman, Englett & Lynd, PLLC
Craig Ronald Lynd Sanford, Florida	Partner, Kaufman, Englett & Lynd, PLLC
Jeffrey Sanford Kaufman Orlando, Florida	Partner, Kaufman, Englett & Lynd, PLLC
Paul M. Pantozzi, II Orlando, Florida	Vice President, K.E.L. Title Insurance Group, Inc.
Christopher Hoyle Hunt Orlando, Florida	Attorney, Kaufman Englett & Lynd, PLLC.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b><u>Name</u></b>	<b><u>Title</u></b>
Matthew Shane Englett	President & Secretary
Craig Ronald Lynd	Vice President
Jeffrey Sanford Kaufman	Vice President
Paul M. Pantozzi, II	Vice President & Treasurer

Following are the designated members of the Audit Committee as of December 31, 2010:

Audit Committee

Matthew Shane Englett  
Craig Ronald Lynd  
Christopher Hoyle Hunt

**Affiliated Companies**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

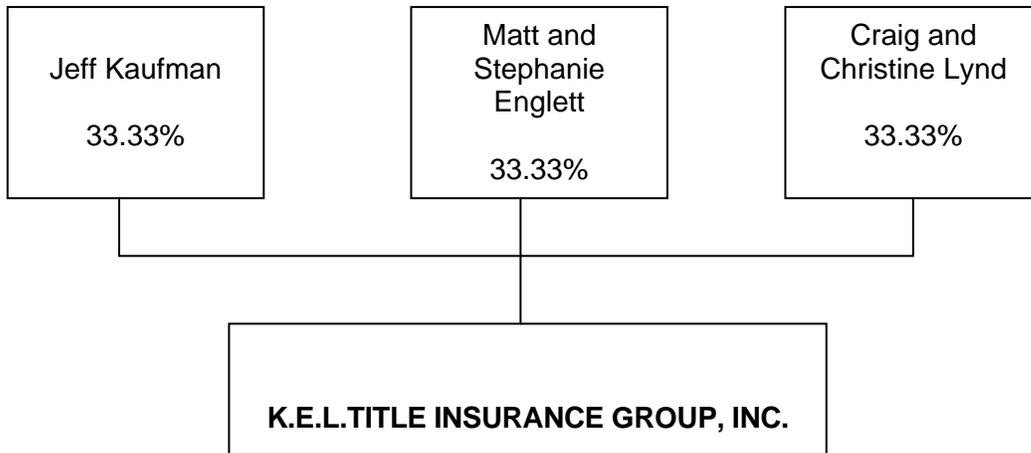
**ORGANIZATIONAL CHART**

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**K.E.L. TITLE INSURANCE GROUP, INC.**

**Organizational Chart**

**DECEMBER 31, 2010**



In the organizational chart provided by the Company, K.E.L. Title Insurance Group was presented as a separate standalone entity. As individuals, the owners of the Company also own the affiliated entities and therefore, it was a member of a holding company. The Company filed a holding company system registration statement on March 21, 2011.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employee retirement or stock ownership plans.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company was only authorized to transact insurance in the State of Florida.

#### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.39541 (1) (j), Florida Statutes.

The Company maintained a claims procedure manual the included detailed procedures for each type of claim in accordance with Section 626.9541 (1) (i) 3a, Florida Statutes.

## COMPANY GROWTH

### Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the 2010, 2009, and 2008 year-end annual statements.

	2010	2009	2008
Premiums Earned	\$2,423,485	\$3,277,582	\$2,301,754
Net Operating Gain/(Loss)	10,077	153,262	100,072
Net Income	20,884	113,451	144,915
Net Admitted Assets	3,043,124	2,972,320	2,659,843
Total Liabilities	790,081	484,608	172,474
Surplus As Regards Policyholders	2,253,043	2,487,712	2,477,369

## LOSS EXPERIENCE

No significant changes in the Company's loss experience were noted during the period under examination.

## REINSURANCE

### Assumed

The Company did not assume any risk during the period under examination

**Ceded**

The Company did not cede any risk during the period under examination.

**ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Orlando, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009 and 2010, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

**Custodial Agreement**

All funds were held in cash or cash equivalent accounts. Therefore, no custodial agreement was required.

**Independent Auditor Agreement**

The Company contracted with an external CPA firm to perform the annual audit of the 2010 Financial Statements as required by Rule 69O-137.002 (7)(c), Florida Administrative Code.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<u>STATE</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FLORIDA	Cash	<u>\$100,000</u>	<u>\$100,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$100,000</u>	<u>\$100,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$100,000</u>	<u>\$100,000</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**K.E.L. TITLE INSURANCE GROUP, INC.  
ASSETS**

**DECEMBER 31, 2010**

<b>Assets</b>			
	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash and short term investments	\$ 2,999,510		\$ 2,999,510
Investment income due and accrued	579		579
Uncollected premiums and agents' balances in course of collection	24,555		24,555
Current federal income tax recoverable	13,980		13,980
Net deferred tax asset	4,500		4,500
Total assets	<b>\$ 3,043,124</b>	<b>\$ -</b>	<b>\$ 3,043,124</b>

**K.E.L. TITLE INSURANCE GROUP, INC.  
LIABILITIES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Known Case Reserves	\$ 50,219		\$ 50,219
Statutory premium reserve	383,639		383,639
Supplemental reserve	346,423		346,423
Taxes licenses and fees	9,277		9,277
Aggregate write-ins for liabilities	523		523
	<hr/>		
Total liabilities	\$ 790,081	-	\$ 790,081
	<hr/>		
Common capital stock	9,508		9,508
Gross paid in and contributed capital	2,490,492		2,490,492
Unassigned funds (surplus)	(246,957)		(246,957)
Surplus as regard policyholders	2,253,043		2,253,043
	<hr/>		
Total liabilities captial and surplus	\$ 3,043,124	\$ -	\$ 3,043,124
	<hr/> <hr/>		

**K.E.L. TITLE INSURANCE GROUP, INC.  
STATEMENT OF INCOME**

**DECEMBER 31, 2010**

**Underwriting Income**

Title Insurance Premiums earned	\$ 2,423,485
Other title fees and services charges	161,299
<b>Total Operating Income</b>	<u>\$2,584,784</u>

**Deductions**

Losses and loss adjustment expenses incurred	\$162,915
Operating expenses incurred	2,411,792
Total underwriting deductions	<u>\$2,574,707</u>
Net underwriting gain or (loss)	\$10,077

**Investment Income**

Net investment income earned	\$15,425
Net investment gain (loss)	<u>\$15,425</u>

Net income before before taxes	\$25,502
Federal and foreign income taxes incurred	4,618
Net income	<u>\$20,884</u>

**Capital and Surplus Account**

Surplus as regard policyholders, December 31 prior year	\$2,487,712
Net income for current year	20,884
Change in nonadmitted assets	(7,238)
Change in supplemental reserves	(248,315)
Change in surplus as regards policyholders	<u>(234,669)</u>
Surplus as regards policyholders	<u>\$ 2,253,043</u>

A comparative analysis of changes in surplus is shown below.

**K.E.L. TITLE INSURANCE GROUP, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2010**

Surplus as Regards Policyholders as of December 31, 2010 per Company			<u>\$ 2,253,043</u>
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) in Surplus</b>
Assets No adjustment			
Liabilities No adjustment			-
Net Change in Surplus			<u>0</u>
Surplus as Regards Policyholders as of December 31, 2010 per Examination			<u>\$ 2,253,043</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

<b>Known Case Reserves</b>	\$ 50,219
<b>Statutory Premium Reserve</b>	\$383,639
<b>Supplemental Reserve</b>	\$346,423

An outside actuary, J. Edward Costner, ACAS, MAAA of Casualty Actuarial Consultants, Inc., appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged Robert W. Gardner, FCAS, MAAA and Michael Morro, ACAS, MAAA actuaries from the INS Consultants, Inc., to review the, Known Case Reserves, Statutory Premium Reserve and the Supplemental Reserve carried in the Company's balance sheet as of December 31, 2010. The Office consulting actuary also confirmed that the procedures for setting the Statutory Premium Reserve amount were consistent with the requirements stipulated in Section 625.111, Florida Statutes. The Office consulting actuary developed an overall summary of their estimates of net reserves and concluded that the carried net reserves for the Company as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations.

### Capital and Surplus

The amount reported by the Company of \$2,253,043 exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **K.E.L. Title Insurance Group, Inc.** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$2,253,043, which exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Hails W. Taylor, CFE, Senior Insurance Examiner, InsRis Inc., and Gary Farmer, CPA, CFE, AES, Financial Examiner/Analyst Supervisor participated in the examination. In addition, Robert W. Gardner, FCAS, MAAA and Michael Morro, ACAS, MAAA, actuaries from INS Consultants, Inc. also participated in the examination.

Respectfully submitted,

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Mary James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation