

REPORT ON EXAMINATION

OF

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

ALTAMONTE SPRINGS, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

September 4, 2009

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, Florida Statutes, 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 an examination as of December 31, 2008, of the financial condition and corporate affairs of:

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

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

SCOPE OF EXAMINATION

This examination covered the period of April 24, 2007, through December 31, 2008. This was the first examination by representatives of the Florida Office of Insurance Regulation (Office) and commenced with planning at the Office from May 26, 2009, to May 29, 2009. The fieldwork commenced June 15, 2009, and concluded as of September 4, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook Risk-Focused Procedures, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the

quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, and increased focus on and increased substantive testing of accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the Company's independent audit report and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

This was the first-year examination of the Company.

HISTORY

General

The Company was incorporated in Florida on April 24, 2007, and commenced business on July 6, 2007, as the K.E.L. Title Insurance Group, Inc.

The Company was party to Consent Order Number 89839-07-CO, filed April 20, 2007, with the Office regarding the application for and issuance of a Certificate of Authority. The Company failed to comply with the following provisions of this Consent Order:

Any Agreement entered into with any affiliated person or entity shall be in writing and approved by the Office prior to its effective date. The Company stated in its Plan of Operation to the Office its intent to enter into affiliated agency, management and cost sharing agreements and made the disclosures regarding the Agreements in its Holding Company filing dated June 9, 2009, but it failed to provide any proof of the Office's approval of the Agreements prior to implementation. **Subsequent Event:** The Company submitted the agreements to the Office August 19, 2009.

The Company was authorized to transact the business of title insurance only in Florida as of December 31, 2008.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

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

Control of the Company was maintained by its three majority shareholders; Matthew S. Englett, Craig R. Lynd, and Jeffrey S. Kaufman. Each had an ownership interest of 31.69% of the Company's issued and outstanding stock. The balance of 4.93% was owned by shareholder Larry Joseph.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the 2008 and 2007 year-end annual statements.

	2008	2007
Premiums Earned	2,301,754	554,387
Net Operating Gain/(Loss)	100,072	(222,944)
Net Income	144,915	(167,546)
Net Admitted Assets	2,649,843	2,378,411
Total Liabilities	172,474	45,957
Surplus As Regards Policyholders	2,477,369	2,332,454

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders during the period covered by this examination.

Management

On April 08, 2008, the Annual Board Meeting was held for the election of directors in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location	Principal Occupation
Matthew Shane Englett Windermere, Florida	Director/Officer, K.E.L. Title Insurance Group
Craig Ronald Lynd Sanford, Florida	Director/Officer, K.E.L. Title Insurance Group
Jeffrey Sanford Kaufman Orlando, Florida	Director/Officer, K.E.L. Title Insurance Group
Paul M. Pantozzi, II Orlando, Florida	Director/Officer, K.E.L. Title Insurance Group
Gordon McKenzie Parkland, Florida	Self-Employed Businessman

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

Senior Officers

Name	Title
Sheryl Campbell Hughes	President
Matthew Shane Englett	Vice President & Secretary
Craig Ronald Lynd	Vice President
Jeffrey Sanford Kaufman	Vice President
Paul M. Pantozzi, II	Vice President & Treasurer

The Bylaws also required the election or appointment of a Chief Executive Officer (CEO); however, as of the date of this examination, no one at the Company held this position.

Following are the members of the Audit Committee as of December 31, 2008:

Audit Committee

Matthew Shane Englett *

Craig Ronald Lynd

Sheryl Campbell Hughes

* Chairman

Conflict of Interest Procedure

The Company adopted a Code of Business Conduct and Ethics policy statement requiring annual disclosure of conflicts of interest. Each Board member and Officer executed a signed statement as of December 31, 2008, acknowledging and understanding of and compliance with the Conflict of Interest Policy.

Corporate Records

The recorded minutes of the shareholders and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no mergers disposals, dissolutions, or purchase or sales through reinsurance during the period of examination.

Surplus Debentures

There were no outstanding surplus debentures from the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The Company did not file an updated holding company registration statement as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

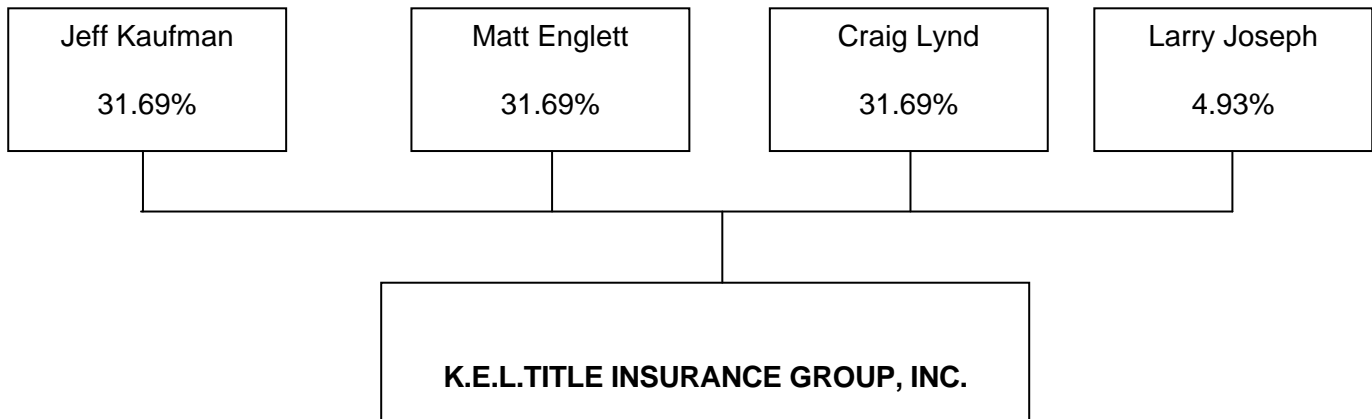
Subsequent Event: On June 9, 2009, the Company filed their holding company registration statement.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 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, 2008



In the organizational chart provided by the Company, K.E.L. Title Insurance Group, Inc. was presented as a separate stand-alone entity. As individuals, the owners of K.E.L. Title Insurance Group, Inc. also own the affiliated entities. However, there was not a separate entity acting as the holding company.

The following agreements were in effect between the Company and its affiliates:

Management Agreement

The Company was party to a Management Agreement with the Law Firm of Kaufman, Englett & Lynd, P.A. The initial agreement required the Company to pay an amount equivalent to 10% of gross title insurance premiums for services performed under the agreement. The agreement was amended effective May 21, 2009, to delete the 10% and charge a flat monthly fee of \$12,000.

Cost Allocation Agreement

The Company was party to a Cost Allocation Agreement with the law firm of Kaufman, Englett & Lynd, PA, K.E.L Title Insurance Agency Inc., K.E.L Constructors, K.E.L Homes, K.E.L Real Estate, and Uptown Scanning. The agreement specified the percentage of expenses that each party will be charged for office space, materials, equipment and personnel.

Managing Agency Agreement

The Company was party to an Agency Agreement with K.E.L. Title Insurance Agency, Inc. The Company paid a 70% commission on all business submitted by this Agency.

Section M of the Conditional Licensing Consent Order required the Company to submit all affiliated agreements to the Office for review and prior written approval. The examination requested and received an approved listing of policy forms, schedules and endorsements from the Company, but did not receive any evidence of prior approval of the Agency Agreement.

Subsequent Event: The Company submitted the agreements to the Office August 19, 2009.

FIDELITY BOND AND OTHER INSURANCE

The Company did not have the NAIC recommended Fidelity Bond coverage during the period covered by this examination.

Subsequent Event: Effective January 20, 2009, the Company purchased a policy insuring itself and K.E.L Title Insurance Agency for up to \$1,000,000. This policy covered the suggested minimum amount as recommended by the NAIC.

This policy also included Workers Compensation and Employers Liability coverage in the amount of \$100,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employee retirement or stock ownership plans.

STATUTORY DEPOSITS

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

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

INSURANCE PRODUCTS

The Company only issued Title insurance products.

Territory

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

Treatment of Policyholders

The Company did not maintain a claims procedures manual that included detailed procedures for handling each type of claim in violation of Section 626.9541(1) (i) 3a, Florida Statutes.

Subsequent Event: The Company has developed a claims procedures manual in accordance with Section 626.9541 (1)(i) 3a, Florida Statutes.

The Company did not have complaint handling procedures in violation of Section 626.9541(1)(j) Florida Statutes. **Subsequent Event:** The Company has developed complaint handling procedures in accordance with Section 626.9541(1)(j), Florida Statutes.

REINSURANCE

The Company utilized facultative reinsurance to place risk in accordance with Section 627.778(1)(a)2, Florida Statutes.

Ceded

Pursuant to Section 627.778(1)(a)2, Florida Statutes, the Company must refrain from issuing insurance in any amount that exceeds one-half of its Policyholder's Surplus, unless the Company can obtain reinsurance from any national or local underwriter with net assets equal to or greater than fifty million dollars, for any amounts in excess of one-half of its Policyholders Surplus. The Company acknowledged one exception of the statute and notified the Office of this exception. In the Annual Statement Notes for 2008, the Company disclosed it had one reinsurance transaction

subject to the statute. However, the examination found there were actually four other policies that exceeded the liability cap and two of those had not been ceded in accordance with the statute.

There were two policies with net liabilities exceeding 50% of the policyholder surplus that had not been ceded under the arrangement. Management indicates that these two policies were not over the liability cap, as they are allowed to use the most recent quarter to determine surplus as regards policyholders. However, part (2) of the statute clearly states that the most recent annual statement must be used to determine policyholder surplus. The company should ensure compliance with all parts of Section 627.778, Florida Statutes.

The Company had one policy where a portion of the risk had been placed with the Chicago Title Insurance Company on a facultative basis. The reinsurance terms and conditions were covered by a letter of acceptance from the Chicago Title Insurance Company and the American Land Title Associations (ALTA) standard facultative reinsurance agreement.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Altamonte Springs, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year ending December 31, 2008, 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.

The Company's accounting records are maintained by two computerized systems; Peachtree software was used for general ledger reporting and FSI software is utilized for statutory financial reporting. The Company's general ledger accounts were reconciled to the line items of the annual statement submitted to the Office.

The Company was required to file an amended Annual Statement for the year 2008.

The Company and non-affiliates had the following agreements:

Issuing Agency Contracts

The Company was party to an Issuing Agency Contract covering the terms and conditions for agents producing and submitting business to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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.

DECEMBER 31, 2008

ASSETS

	Per Company	Examination Adjustments	Per Examination
Cash and short term investments	2,649,272		2,649,272
			-
Investment income due and accrued	571		571
Total assets	<u>\$ 2,649,843</u>	<u>\$ -</u>	<u>\$ 2,649,843</u>

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LIABILITIES

	Per Company	Examination Adjustments	Per Examination
Statutory Premium Reserve	\$ 150,765		\$ 150,765
Other expenses	1,000		1,000
Taxes licenses and fees	20,186		20,186
Aggregate write-ins for liabilities	523		523
Total liabilities	<u>172,474</u>	-	<u>172,474</u>
Common capital stock	9,507		9,507
Gross paid in and contributed capital	2,490,493		2,490,493
Unassigned funds (surplus)	(22,631)		(22,631)
Surplus as regard policyholders	2,477,369		2,477,369
Total liabilities captial and surplus	<u>\$ 2,649,843</u>	<u>\$ -</u>	<u>\$ 2,649,843</u>

K.E.L. TITLE INSURANCE GROUP

DECEMBER 31, 2008

STATEMENT OF INCOME

Underwriting Income

Title Insurance Premiums earned \$ 2,301,754

Deductions

Losses and loss adjustment expenses incurred 24,866

Operating expenses incurred 2,176,816

Total underwriting deductions 2,201,682

Net underwriting gain or (loss) 100,072

Investment Income

Net investment income earned 44,843

Net investment gain (loss) 44,843

Net income before before taxes 144,915

Net income 144,915

Capital and Surplus Account

Surplus as regard policyholders, December 31 prior year 2,332,454

Net income for current year 144,915

Change in surplus as regards policyholders 144,915

Surplus as regards policyholders, December 31 current year \$ 2,477,369

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash	<u>\$2,649,272</u>
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Cash reported in the amount of \$2,649,272 was accepted for examination purposes. The cash account included a money market fund in the amount of \$2,192,747 and a special deposit on behalf of the Office in the amount of \$100,000.

Liabilities

Statutory Premium Reserve	<u>\$150,765</u>
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An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, 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 an independent actuarial firm to review the Statutory Premium Reserve carried in the Company's balance sheet as of December 31, 2008, and was in concurrence with this opinion. The examination 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 Company was aware of the premium release provisions of the statute, but chose to retain the corresponding amount of \$8,858 in reserves as a more conservative strategy.

However, Section 625.111, Florida Statutes, also required that the Statutory Premium Reserve funds be held in a trust established in favor of the holders of title guarantees and policies. The Company had not met this requirement of the statute. **Subsequent Event:** The custody agreement with RBC Bank has been submitted to the Office for review and approval. Upon approval, a trust will be established.

Capital and Surplus

The amount reported by the Company of \$2,477,369 exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

Surplus as Regards Policyholders as of December 31, 2008 per Company				\$	2,477,369
	Per Company	Per Examination	Increase (Decrease) in Surplus		
Assets No adjustment			-		
Liabilities No adjustment			-		
Net Change in Surplus					-
Surplus as Regards Policyholders as of December 31, 2008 per Examination				\$	2,477,369

SUMMARY OF FINDINGS

This was a first-year examination of the Company.

Current examination comments and corrective action:

The following is a brief summary of the items of interest and corrective action to be taken by the Company regarding exceptions findings in the examination as of December 31, 2008.

Policy Limits

Section 627.778, Florida Statutes (Policy Limits) states that title insurers must cede the portion of net liability that exceeds 50% of surplus based on the prior annual statement. There were two policies with net liabilities exceeding 50% of the policyholder surplus that had not been ceded under the arrangement. **We recommend that the Company ensure compliance with all parts of Section 627.778, 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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$2,477,369 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Vetrechia Smith, Financial Specialist, Office of Insurance Regulation, Brent Sallay, FCAS, Actuary, Joe Peiso, CPA, ARe Examiner, John M. Coleman, CFE, and Tracy Gates, CPA, CISA, IT Specialist, participated in the examination. We also recognize Highland Clark, LLC and Taylor Walker & Associates for participation in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation