STEWART INFORMATION SERVICES CORP
Form 10-K
February 28, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-02658

STEWART INFORMATION SERVICES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-1677330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1980 Post Oak Blvd., Houston TX	77056
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (713) 625-8100
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 par value	New York Stock Exchange (NYSE)
(Title of each class of stock)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No þ

The aggregate market value of the Common Stock (based upon the closing sales price of the Common Stock of Stewart Information Services Corporation, as reported by the NYSE on June 30, 2018) held by non-affiliates of the Registrant was approximately $995.6 million.

At February 22, 2019, there were 23,725,004 outstanding shares of the issuer's Common Stock, $1 par value per share.

Documents Incorporated by Reference

Portions of the definitive proxy statement (the Proxy Statement), in connection with the Registrant's 2019 Annual Meeting of Stockholders, are incorporated herein by reference in Part III of this document.

FORM 10-K ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2018
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As used in this report, "we," "us," "our," the "Company" and "Stewart" mean Stewart Information Services Corporation and ou subsidiaries, unless the context indicates otherwise.

PART I

Item 1. Business

Stewart Information Services Corporation (NYSE:STC) is a global real estate services company, incorporated in Delaware in 1970, and offering products and services through our direct operations, network of independent agencies and family of companies. From residential and commercial title insurance and closing and settlement services to specialized offerings for the mortgage industry, we offer the comprehensive service, deep expertise and solutions our customers need for any real estate transaction. We and our predecessors have been engaged in the title business since 1893.

Our international division delivers products and services protecting and promoting private land ownership worldwide. Our primary international operations are in Canada, the United Kingdom, Australia and Central Europe.

We currently report our business in two segments: title insurance and related services (title), and ancillary services and corporate. Refer to Note 19 to our audited consolidated financial statements and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for financial information related to the title and ancillary services and corporate segments.

Merger Agreement

During November 2017, we announced that our Board formed a strategic committee to actively assess a full range of strategic alternatives available to Stewart and that we retained Citi as financial advisor and Davis Polk & Wardwell LLP as legal advisor to assist us in the strategic alternatives review process. During March 2018, Stewart entered into an agreement and plan of merger (merger agreement) with Fidelity National Financial, Inc. (FNF), in which the outstanding shares of Stewart will be exchanged for a combination of cash and shares of FNF, and the Company will be merged into a subsidiary of FNF (the Mergers). After the merger announcement, the parties commenced the regulatory approval process by submitting applicable filings to the Federal Trade Commission (FTC), the states of Texas and New York, where our two main underwriters are domiciled, and other states and jurisdictions where necessary.

We continue to work through the regulatory process with FNF to satisfy all of the conditions for closing the Mergers, including those of the FTC, the Texas Department of Insurance (TDI) and the New York State Department of Financial Services (NYDFS). We have received approval from a majority of the other states and all of the international jurisdictions we notified about the Mergers. As previously disclosed in a Form 8-K filing, on January 31, 2019, the NYDFS provided written notice of its disapproval of FNF's application to acquire control of Stewart Title Insurance Company, our New York domiciled title insurance underwriter. Stewart and FNF are in the process of reaching out to the NYDFS to discuss the notice and seek to resolve the concerns raised therein, with which we and FNF respectfully disagree.

For details on the merger agreement, refer to Note 1 to our audited consolidated financial statements.

Title Segment

Title insurance and related services include the functions of searching, examining, closing and insuring the condition of the title to real property. The title segment also includes home and personal insurance services and Internal Revenue Code Section 1031 tax-deferred exchanges.

Examination and closing. The purpose of a title examination is to ascertain the ownership of the property being transferred, debts that are owed on it and the scope of the title policy coverage. This involves searching for and examining documents such as deeds, mortgages, wills, divorce decrees, court judgments, liens, paving assessments and tax records.

At the closing or "settlement" of a sale transaction, the seller executes and delivers a deed to the new owner. The buyer typically signs new mortgage documents. Closing funds are disbursed to the seller, the prior lender, real estate brokers, the title company and others. The documents are then recorded in the public records. A title insurance policy is generally issued to both the new lender and the owner.

Title insurance policies. Lenders in the United States generally require title insurance as a condition to making a loan on real estate, including securitized lending. This is to assure lenders of the priority of their lien position. The purchasers of the property want insurance to protect against claims that may arise against the title to the property. The face amount of the policy is normally the purchase price or the amount of the related loan.

Title insurance is substantially different from other types of insurance. Fire, auto, health and life insurance protect against future losses and events. In contrast, title insurance insures against losses from past events and seeks to protect the public by eliminating covered risks through the examination and settlement process. In essence, subject to its exceptions and exclusions, a title insurance policy provides a warranty to the policyholder that the title to the property is free from defects that might impair ownership rights, or in the case of a lender's policy, that there is priority of lien position. Most other forms of insurance provide protection for a limited period of time and, hence the policy must be periodically renewed. Title insurance, however, is issued for a one-time premium and the policy provides protection for as long as the owner owns the property, or has liability in connection with the property, or a lender under its policy has its insured lien on the property. Also, a title insurance policy does not have a finite contract term, whereas most other lines of insurance have a definite beginning and ending date for coverage. Although a title insurance policy provides protection as long as the owner owns the property being covered, the title insurance company generally does not have information about which policies are still effective. Most other lines of insurance receive periodic premium payments and policy renewals thereby allowing the insurance company to know which policies are effective.

Losses. Losses on policies occur when a title defect is not discovered during the examination and settlement process. Reasons for losses include forgeries, misrepresentations, unrecorded or undiscovered liens, the failure to pay off existing liens, mortgage lending fraud, mishandling or defalcation of settlement funds, issuance by independent agencies of unauthorized coverage and defending policyholders when covered claims are filed against their interest in the property.

Some claimants seek damages in excess of policy limits. Those claims are based on various legal theories. We vigorously defend against spurious claims and provide protection for covered claims up to the limits set forth in the policy. We have from time-to-time incurred losses in excess of policy limits.

Experience shows that most policy claims and claim payments are made in the first six years after the policy has been issued, although claims can also be incurred and paid many years later. By their nature, claims are often complex, vary greatly in dollar amounts and are affected by economic and market conditions and the legal environment existing at the time claims are processed.

Our liability for estimated title losses comprises both known claims and our estimate of claims that may be reported in the future. The amount of our loss reserve represents the aggregate future payments (net of recoveries) that we expect to incur on policy losses and in costs to settle claims. In accordance with industry practice, these amounts have not been discounted to their present values.

Estimating future title loss payments is difficult due to the complex nature of title claims, the length of time over which claims are paid, the significant variance in dollar amounts of individual claims and other factors. The amounts provided for policy losses are based on reported claims, historical loss payment experience, title industry averages and the current legal and economic environment. Estimated provisions for current year policy losses are charged to income in the same year the related premium revenues are recognized. Annual provisions for policy losses also include changes in the estimated aggregate liability on policies issued in prior years. Actual loss payment experience relating to policies issued in previous years, including the impact of large losses, is the primary reason for increases or decreases in our annual loss provision.

Amounts shown as our estimated liability for future loss payments are continually reviewed by us for reasonableness and adjusted as appropriate. We have consistently followed the same basic method of estimating and recording our loss reserves for more than 10 years. As part of our process, we also obtain input from third-party actuaries regarding our methodology and resulting reserve calculations. While we are responsible for determining our loss reserves, we utilize this actuarial input to assess the overall reasonableness of our reserve estimation.

See “Critical Accounting Estimates - Title Loss Reserves” under Item 7 - MD&A for information on current year policy losses and consolidated balance sheet reserves.

Factors affecting revenues. Title insurance revenues are closely related to the level of activity in the real estate markets we serve and the prices at which real estate sales are made. Real estate sales are directly affected by the availability and cost of money to finance purchases. Other factors include consumer confidence and demand by buyers. In periods of low interest rates, loan refinancing transactions are also an important contributor to revenues. These factors may override the seasonal nature of the title business. Generally, our first quarter is the least active and our second and third quarters are the most active in terms of title insurance revenues. Refer to "Industry Data" of Item 7 - MD&A for comparative information on home sales, mortgage interest rates and loan activity.

Customers. The primary sources of title insurance business are attorneys, builders, developers, home buyers and home sellers, lenders, mortgage brokers, and real estate brokers and agents. No individual customer was responsible for as much as 10% or more of our consolidated revenues in any of the last three years. Titles insured include residential and various asset classes of commercial properties, including but not limited to, office, multi family, industrial, retail, undeveloped acreage, farms, ranches, wind and solar power installations and other energy-related projects.

Service, location, financial strength, company size and related factors affect customer acceptance. Increasing market share is accomplished primarily by providing superior service. The parties to a closing are concerned with accuracy, timeliness and cost. The rates charged to customers are regulated, to varying degrees, in most states.

The financial strength and stability of the title underwriter are important factors in maintaining and increasing our business, particularly commercial business. We are rated as investment grade by the title industry’s leading rating companies. Our principal underwriter, Stewart Title Guaranty Company (Guaranty), is currently rated “A” by Demotech Inc., "A-" by Fitch Ratings Ltd., "A-" by A.M. Best and "B+" by Kroll Bond Rating Agency Inc. Similarly, our second largest underwriter, Stewart Title Insurance Company (STIC), is also highly rated by such rating companies.

Market share. Title insurance statistics are compiled quarterly by the title industry’s national trade association. Based on 2018 unconsolidated statutory net premiums written through September 30, 2018, Guaranty is one of the leading title insurers in the United States.

Our largest competitors are FNF, which includes Chicago Title Insurance Company, Fidelity National Title Insurance Company and Commonwealth Land Title Insurance Company; First American Financial Corporation (First American), which includes First American Title Insurance Company; and Old Republic Title Insurance Group (Old Republic), which includes Old Republic National Title Insurance Company. We also compete with other title insurer companies, as well as abstractors, attorneys who issue title opinions and attorney-owned title insurance funds. A number of homebuilders, financial institutions, real estate brokers and others own or control title insurance agencies, some of which issue policies underwritten by Guaranty.

Refer to "Title revenues by geographic location" within the Results of Operations discussion under Item 7 - MD&A for the breakdown of title revenues by major geographic location.

Regulations. Title insurance companies are subject to comprehensive state regulations covering premium rates, agency licensing, policy forms, trade practices, reserve requirements, investments and the transfer of funds between an insurer and its parent or its subsidiaries and any similar related party transactions. Kickbacks and similar practices are prohibited by most state and federal laws. See Item 1A - Risk Factors: Our Insurance Subsidiaries Must Comply With Extensive Government Regulations.

Ancillary Services and Corporate Segment

The segment is comprised of the parent holding company, our centralized administrative services departments and our ancillary services operations. Our ancillary services operations primarily provide search and valuation services to the mortgage industry through Stewart Lender Services (SLS).

Factors affecting ancillary services revenues. As in the title segment, ancillary services revenues are closely related to the level of activity in the real estate market, which includes the volume of new or refinancing originations.

Companies that compete with our ancillary services businesses vary across a wide range of industries and include the major title insurance underwriters mentioned under “Title Segment - Market share” as well as other real estate technology and business process outsourcing providers.

Customers. Customers for our ancillary services products and services primarily include mortgage lenders and servicers, mortgage brokers and mortgage investors. Many of the services and products offered by our ancillary services business are used by professionals and intermediaries who have been retained to assist consumers with the sale, purchase, mortgage, transfer, recording and servicing of real estate transactions. To that end, timely, accurate and compliant services are critical to our customers since these factors directly affect the service they provide to their customers. Financial strength, scale, robust processes to ensure legal and regulatory compliance, marketplace presence and reputation as a reliable, compliant solution are important factors in attracting new business.

General

Investment policies. Our investment portfolios reside in two domestic and two international regulated insurance underwriters. These underwriters maintain investments in accordance with certain statutory requirements for the funding of premium reserves and deposits, or, in the case of our international operations, for the maintenance of certain capital ratios required by regulators. The activities of the portfolios are overseen by investment committees comprised of certain senior executives. Their oversight includes such activities as policy setting, determining appropriate asset classes with different and distinct risk/return profiles so as to prudently diversify the portfolio, and to approve all service vendors (managers and custodians). We also utilize the expertise of third-party investment advisors to maximize returns while managing risk. Our investment policies are designed to comply with regulatory requirements as applicable law imposes restrictions upon the types and amounts of investments that may be made by the regulated insurance subsidiaries.

Our investment policies further provide that investments are to be managed with a view to balancing profitability, liquidity, and risk (interest rate risk, credit risk, currency rate risk and liquidity risk) while mindful of negatively impacting earnings per share and income taxes.

As of December 31, 2018, approximately 95% of our combined debt and equity investment portfolios consisted of fixed income securities. As of that date, approximately 90% of the fixed income investments are held in securities that are A-rated or higher, and substantially all of the fixed income portfolios are rated investment grade. Percentages are based on the market value of the securities. In addition to our debt and equity investment securities portfolios, we maintain certain money-market and other short-term investments. For more details on market risks related to our investment securities portfolio, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Trademarks. We have developed and acquired numerous automated products and processes that are crucial to both our title and ancillary services segments. These systems automate most facets of the real estate transaction. Among these trademarked products and processes are AIM+®, AgencySecure®, PropertyInfo®, SureClose®, TitleSearch®, eTitleSearch®, Virtual Underwriter® and Stewart Now®. We consider these trademarks, which can be renewed every ten years, to be important to our business.

Employees. As of December 31, 2018, we employed approximately 5,400 people. We consider our relationship with our employees to be good.

Available information. We electronically file annual, quarterly and other reports and information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). Our electronic filings can be accessed at the SEC's website at www.sec.gov. We also make available upon written request, free of charge, or through our Internet site (www.stewart.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Code of Ethics and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Transfer agent. Our transfer agent is Computershare, which is located at P.O. Box 505000, Louisville, KY, 40233-5000. Its phone number is (888) 478-2392 and website is (https://www-us.computershare.com/investor).

CEO and CFO certifications. The CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to our 2018 Form 10-K. Stewart Information Services Corporation submitted in 2018 its annual CEO Certification under Section 303A.12(a) of the New York Stock Exchange (NYSE) Listed Company Manual.

Item 1A. Risk Factors

You should consider the following risk factors, as well as the other information presented in this report and our other filings with the SEC, in evaluating our business and any investment in Stewart. These risks could materially and adversely affect our business, financial condition and results of operations. In that event, the trading price of our Common Stock could decline materially.

Adverse changes in economic conditions, especially those affecting the levels of real estate and mortgage activity, may reduce our revenues.

Our financial condition and results of operations are affected by changes in economic conditions, particularly mortgage interest rates, credit availability, real estate prices and consumer confidence. Our revenues and earnings have fluctuated in the past due to the cyclical nature of the housing industry and we expect them to fluctuate in the future.

The demand for our title insurance-related and mortgage services offerings is dependent primarily on the volume of residential and commercial real estate transactions. The volume of these transactions historically has been influenced by such factors as mortgage interest rates, availability of financing and the overall state of the economy. Typically, when interest rates are increasing or when the economy is experiencing a downturn, real estate activity declines. As a result, the title insurance industry tends to experience decreased revenues and earnings. Increases in interest rates may also have an adverse impact on our bond portfolio and the amount of interest we pay on our floating-rate bank debt.

Our revenues and results of operations have been and may in the future be adversely affected by a decline in home prices, real estate activity and the availability of financing alternatives. In addition, weakness or adverse changes in the level of real estate activity could have a material adverse effect on our consolidated financial condition or results of operations.

Our claims experience may require us to increase our provision for title losses or to record additional reserves, either of which would adversely affect our earnings.

We estimate our future loss payments and our assumptions about future losses may prove inaccurate. Provisions for policy losses on policies written within a given year are charged to income in the same year the related premium revenues are recognized. The amounts provided are based on reported claims, historical loss payment experience, title industry averages and the current legal and economic environment. Losses that are higher than anticipated are an indication that total losses for a given policy year may be higher than originally calculated. Changes in the total estimated future loss for prior policy years are recorded in the period in which the estimate changes. Claims are often complex and involve uncertainties as to the dollar amount and timing of individual payments. Claims are often paid many years after a policy is issued. From time-to-time, we experience large losses, including losses from independent agency defalcations, from title policies that have been issued or worsening loss payment experience, any of which may require us to increase our title loss reserves. These events are unpredictable and may have a material adverse effect on our earnings.

Competition in the title insurance industry may affect our revenues.

Competition in the title insurance industry is intense, particularly with respect to price, service and expertise. Larger commercial customers and mortgage originators also look to the size and financial strength of a title insurer. Although we are one of the leading title insurance underwriters based on market share, FNF, Old Republic and First American each has substantially greater revenues than we do and their holding companies have significantly greater capital. Further, the other title insurance companies collectively hold a considerable share of the market. Although we are not aware of any current initiatives to reduce regulatory barriers to entering our industry, any such reduction could result in new competitors, including financial institutions, entering the title insurance business. From time-to-time, new entrants enter the marketplace with alternative products to traditional title insurance, although many of these alternative products have been disallowed by title insurance regulators. Further, advances in technologies could, over time, significantly disrupt the traditional business model of financial services companies, including title insurance. These alternative products or disruptive technologies, if permitted by regulators, could have a material adverse effect on our revenues and earnings.

Availability of credit may reduce our liquidity and negatively impact our ability to fund operations.

We expect that cash flows from operations and cash available from our underwriters, subject to regulatory restrictions, will be sufficient to fund our operations, pay our claims and fund operational initiatives. To the extent that these funds are not sufficient, we may be required to borrow funds on less than favorable terms or seek funding from the equity market, which may be on terms that are dilutive to existing shareholders.

A downgrade of our underwriters by rating agencies may reduce our revenues.

Ratings are a significant component in determining the competitiveness of insurance companies with respect to commercial title policies. Our domestic underwriters, Guaranty and STIC, have historically been highly rated by the rating agencies that cover us. These ratings are not credit ratings. Instead, the ratings are based on quantitative, and in some cases qualitative, information and reflect the conclusions of the rating agencies with respect to our financial strength, results of operations and ability to pay policyholder claims. Our ratings are subject to continual review by the rating agencies, and we cannot be assured that our current ratings will be maintained. If our ratings are downgraded from current levels by the rating agencies, our ability to retain existing customers and develop new customer relationships may be negatively impacted, which could result in a material adverse impact on our consolidated financial condition or results of operations.

Our insurance subsidiaries must comply with extensive government regulations. These regulations could adversely affect our ability to increase our revenues and operating results.

The Consumer Financial Protection Bureau (CFPB) is charged with protecting consumers by enforcing Federal consumer protection laws and regulations. The CFPB is an independent agency and funded by the United States Federal Reserve System. Its jurisdiction includes banks, credit unions, securities firms, payday lenders, mortgage servicing operations, foreclosure relief services, debt collectors and other financial companies. The nature and extent of these regulations include, but are not limited to:

- conducting rule-making, supervision, and enforcement of Federal consumer protection laws;
- restricting unfair, deceptive, or abusive acts or practices;
- taking consumer complaints;
- promoting financial education;
- researching consumer behavior;
- monitoring financial markets for new risks to consumers; and
- enforcing laws that outlaw discrimination and other unfair treatment in consumer finance.

The CFPB’s integrated disclosure rule for mortgage loan applications, known as "Know Before You Owe", imposes certain requirements for us and other mortgage industry participants regarding required mortgage disclosures and forms. Compliance with this integrated disclosure, which was introduced in 2015, has altered related business processes and interactions with customers.

Governmental authorities regulate our insurance subsidiaries in the various states and international jurisdictions in which we do business. These regulations generally are intended for the protection of policyholders rather than stockholders. The nature and extent of these regulations vary from jurisdiction to jurisdiction, but typically involve:

- approving or setting of insurance premium rates;
- standards of solvency and minimum amounts of statutory capital and surplus that must be maintained;
- limitations on types and amounts of investments;
- establishing reserves, including statutory premium reserves, for losses and loss adjustment expenses;
- regulating underwriting and marketing practices;
- regulating dividend payments and other transactions among affiliates;
-

prior approval for the acquisition and control of an insurance company or of any company controlling an insurance company;

- licensing of insurers, agencies and, in certain states, escrow officers;
- regulation of reinsurance;
- restrictions on the size of risks that may be insured by a single company;
- deposits of securities for the benefit of policyholders;
- approval of policy forms;
- methods of accounting; and
- filing of annual and other reports with respect to financial condition and other matters.

These regulations may impede or impose burdensome conditions on rate increases or other actions that we might want to take to enhance our operating results.

We may also be subject to additional state or federal regulations prescribed by legislation such as the Dodd-Frank Act or by regulations issued by the CFPB, Department of Labor, Office of the Comptroller of the Currency, Department of the Treasury or other agencies. Changes in regulations may have a material adverse effect on our business. In addition, state regulators perform periodic examinations of insurance companies, which could result in increased compliance or litigation expenses.

Rapid changes in our industry require secure, timely and cost-effective technological responses. Our earnings may be adversely affected if we are unable to effectively use technology to address regulatory changes and increase productivity.

We believe that our future success depends, in part, on our ability to anticipate changes in the industry and to offer products and services that meet evolving standards on a timely and cost-effective basis. To do so requires a flexible technology architecture which can continuously comply with changing regulations, improve productivity, lower costs, reduce risk and enhance the customer experience. Inability to meet these requirements and any unanticipated downtime in our technology may have a material adverse effect on our earnings.

We rely on dividends from our insurance underwriting subsidiaries.

We are a holding company and our principal assets are our insurance underwriting subsidiaries. Consequently, we depend on receiving sufficient dividends from our insurance subsidiaries to meet our debt service obligations and to pay our parent company's operating expenses and dividends to our stockholders. The insurance statutes and regulations of some states require us to maintain a minimum amount of statutory capital and restrict the amount of dividends that our insurance subsidiaries may pay to us. Guaranty is a wholly owned subsidiary of Stewart and the principal source of our cash flow. In this regard, the ability of Guaranty to pay dividends to us is dependent on the approval of the Texas Insurance Commissioner. Refer to Note 3 to our audited consolidated financial statements for details on statutory surplus and dividend restrictions.

Claims by large classes of claimants may impact our financial condition or results of operations.

We are periodically involved in litigation arising in the ordinary course of business. In addition, we are currently, and have been in the past, subject to claims and litigation from large classes of claimants seeking substantial damages not arising in the ordinary course of business. Material pending legal proceedings, if any, not in the ordinary course of business, would be disclosed in Item 3—Legal Proceedings included elsewhere in this report. To date, the impact of the outcome of these proceedings has not been material to our consolidated financial condition or results of operations. However, an unfavorable outcome in any litigation, claim or investigation against us could have a material adverse effect on our consolidated financial condition or results of operations.

Information technology systems present potential targets for cyber security attacks.

Our operations are reliant on technology. These systems are used to store and process sensitive information regarding our operations, financial position and any information pertaining to our customers and vendors. While we take the utmost precautions, we cannot guarantee safety from all cyber threats, wire fraud and attacks to our systems. Any successful breach of security could result in the spread of inaccurate or confidential information, disruption of operations, theft of escrowed funds, endangerment of employees, damage to our assets and increased costs to respond. Although we maintain cyber liability insurance to protect us financially, there is no assurance that the instances noted above would not have a negative impact on cash flows, litigation status and/or our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

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Unfavorable economic or other business conditions could cause us to record an impairment of all or a portion of our goodwill and other intangible assets.

We annually perform an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets in the third quarter using June 30 balances. However, an evaluation may be made whenever events may indicate an impairment has occurred. In assessing whether an impairment has occurred, we consider whether the performance of our reporting units may be below projections, unexpected declines in our market capitalization, negative macroeconomic trends or negative industry and company-specific trends. If we conclude that the carrying values of these assets exceed the fair value, we may be required to record an impairment of these assets. Any substantial impairment that may be required in the future could have a material adverse effect on our results of operations or financial condition.

Failures at financial institutions at which we deposit funds could adversely affect us.

We deposit substantial operating and fiduciary funds, which are third-party funds, in many financial institutions in excess of insured deposit limits. In the event that one or more of these financial institutions fail, there is no guarantee that we could recover the deposited funds in excess of federal deposit insurance, and, as such, we could be held liable for the funds owned by third parties. Under these circumstances, our liability could have a material adverse effect on our results of operations or financial condition.

Our investment portfolio is subject to interest rate and other risks and could experience losses.

We maintain a substantial investment portfolio, primarily consisting of fixed income debt securities and, to a lesser extent, equity securities. Our portfolio holdings are subject to certain economic and financial market risks, including credit and interest rate risk and/or liquidity risk. Instability in credit markets and economic conditions can increase the risk of loss in our portfolio. Periodically, we measure the fair value of the investments against the carrying value. If the carrying value of the investments exceeds the fair value, and we conclude the decline is other-than-temporary, we are required to record an impairment of the investments. The impairment could have a material adverse effect on our results of operations or financial condition.

Our business could be disrupted as a result of a threatened proxy contest and other actions of activist stockholders.

We have been the subject of actions taken by activist stockholders. When activist activities occur, our business could be adversely affected because we may have difficulty in attracting and retaining customers, agents, mortgage lenders, servicers, employees and board members due to perceived uncertainties as to our future direction and negative public statements about our business; such activities may materially harm our relationships with current and potential customers, investors, lenders, and others; may otherwise materially harm our business, may adversely affect our operating results and financial condition; responding to proxy contests and other similar actions by stockholders is likely to result in our incurring substantial additional costs, including, but not limited to, legal fees, fees for financial advisors, fees for investor relations advisors, and proxy solicitation fees; significantly divert the attention of management, our Board of Directors and our employees; and changes in the composition of our Board of Directors due to activist campaigns may affect the Company's current strategic plan.

We cannot predict, and no assurances can be given as to, the outcome or timing of any matters relating to actions by activist stockholders or the ultimate impact on our business, liquidity, financial condition or results of operations.

Changes in federal, state and local, or foreign tax laws, changing interpretation of existing tax laws, or adverse determinations by tax authorities could increase our tax burden or otherwise adversely affect our fi