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.

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 financial condition or results of operations.

We are subject to taxation at the federal, state and local levels in the United States, Canada, the United Kingdom, and various other countries and jurisdictions in which we operate. The laws, regulations and other authoritative guidance relating to tax matters are extremely complex and subject to varying interpretations. Although we believe our tax positions are reasonable, we are subject to audit by the Internal Revenue Service in the United States, the Canada Revenue Agency in Canada, HM Revenue and Customs in the United Kingdom, state and local tax authorities in the jurisdictions in which we operate, and other similar tax authorities in other international locations. While we believe we comply with all applicable tax laws, rules, and regulations in the relevant jurisdictions, tax authorities may elect to audit us and determine that we owe additional taxes based on different applications and interpretations, which could result in a significant increase in our liabilities for taxes, interest, and penalties in excess of our accrued liabilities.

New tax legislative initiatives may be proposed or enacted from time to time, which may or will impact our effective tax rate and which could adversely affect our tax positions or tax liabilities. Our future effective tax rate could be adversely affected by, among other things, changes in the composition of earnings in jurisdictions with differing tax rates, changes in statutory tax rates and other legislative changes, changes in interpretations of existing tax laws, or changes in determinations regarding the jurisdictions in which we are subject to tax. From time to time, United States federal, state and local, and foreign governments make substantive changes to tax rules and their application, which could result in materially higher taxes than would be incurred under existing tax law and which could adversely affect our financial condition or results of operations.

The Mergers may present certain risks to Stewart's business and operations prior to the closing of the Mergers, including, among other things, the risks described below. Refer to Note 1-S to our audited consolidated financial statements for details of the merger agreement, including definition of terms.

FNF's stock price may be negatively impacted by risks and conditions that apply to FNF, which are different from the risks and conditions applicable to Stewart.

Upon completion of the Mergers, our stockholders who elect to receive the Stock Election Consideration or Mixed Election Consideration will become holders of FNF Common Stock. The businesses and markets of FNF and the other companies it has acquired and may acquire in the future are different from those of Stewart. There is a risk that various factors, conditions and developments that would not affect the price of our Common Stock could negatively affect the price of FNF Common Stock.

The Mergers are subject to the receipt of consents and clearances from regulatory authorities that may impose conditions that could have an adverse effect on Stewart or that could delay or, if not obtained, could prevent completion of the Mergers.

The Mergers are subject to approvals or non-disapprovals from or notices to state insurance regulators, state financial institution regulators, state real estate regulators and various other federal, state and international insurance regulatory authorities. We are awaiting for the remaining state and other regulatory approvals. Additionally, the Mergers are currently under review by the FTC under the Hart-Scott-Rodino Act. Before the Mergers may be completed, applicable waiting periods must expire or terminate under antitrust laws and various approvals, consents or clearances may be required to be obtained from regulatory entities. In deciding whether to grant antitrust or other regulatory clearances, the relevant governmental entities will consider the effect of the Mergers on competition within their relevant jurisdictions. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs or place restrictions on the conduct of FNF's business following the Mergers. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the Mergers or imposing additional material costs on or materially limiting the revenues of FNF following the Mergers. In addition, neither FNF nor Stewart can provide assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of 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. Receipt of approval from the NYDFS is one of the conditions to the completion of the Mergers. 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.

Our stockholders may not receive all consideration in the form they elect, and the form of consideration that they receive may have a lower value or less favorable tax consequences than the form of consideration that they elect to receive.

Our stockholders that make an election for either the Cash Election Consideration or the Stock Election Consideration will be subject to proration if holders of our Common Stock, in the aggregate, elect to receive more or less than the aggregate amount of cash consideration to be paid in the Mergers. Accordingly, some of the consideration our stockholders receive in the Mergers may differ from the type of consideration they select and such difference may be significant. This may result in, among other things, tax consequences that differ from those that would have resulted if our stockholders had received solely the form of consideration that they elected. The relative proportion of stock and cash that one of our stockholders receives may also have a value that is higher or lower than the relative proportion of stock and cash that such stockholder elected to receive.

We may have difficulty attracting, motivating and retaining executives and other employees in light of the Mergers.

Uncertainty about the effect of the Mergers on our employees may continue to have an adverse effect on us. This uncertainty may continue to affect our ability to attract, retain and motivate personnel until the Mergers are completed. We are dependent on the experience and industry knowledge of our officers and other key employees to execute our business plans. In addition, if employees of FNF and Stewart depart because of issues relating to the uncertainty and difficulty of integration or a desire not to become employees of the combined company, the combined company’s ability to realize the anticipated benefits of the Mergers could be reduced.

We will incur substantial transaction-related costs in connection with the Mergers.

We expect to incur a number of transaction-related costs associated with completing the Mergers, combining the operations of the two companies and achieving desired synergies. These fees and costs will be substantial. These transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of the businesses of FNF and Stewart. There can be no assurance that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will offset the incremental transaction-related costs over time. Thus, any net benefit may not be achieved in the near term, the long term or at all.

The Mergers are subject to conditions, including certain conditions that may not be satisfied, and may not be completed on a timely basis, or at all. Failure to complete the Mergers could have material and adverse effects on us.

The completion of the Mergers is subject to a number of conditions which make the completion and timing of the completion of the Mergers uncertain. Also, absent an extension under the terms of the Mergers, either we or FNF may terminate the Merger Agreement if the Mergers have not been completed by March 18, 2019 (or the extended end date, if applicable), unless the failure of the Mergers to be completed by such date has resulted from the failure of the party seeking to terminate the Merger Agreement to perform its obligations.

If the Mergers are not completed on a timely basis, or at all, our ongoing businesses may be adversely affected and, without realizing any of the benefits of having completed the Mergers, we will be subject to a number of risks, including the following:

- we may be required, under certain circumstances, to pay FNF a termination fee of $33 million if the Merger Agreement is terminated under qualifying circumstances, as described in the Merger Agreement;
- we will be required to pay certain costs relating to the Mergers, whether or not the Mergers are completed, such as legal, accounting, financial advisor and printing fees;
- under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Mergers which may adversely affect our ability to execute certain of our business strategies;
- time and resources committed by our management to matters relating to the Mergers could otherwise have been devoted to pursuing other beneficial opportunities;
- the market price of our Common Stock could decline below current market prices to the extent that such current market prices reflect a market assumption that the Mergers will be completed; and
- if the Merger Agreement is terminated and our board seeks another business combination, our stockholders cannot be certain that we will be able to find a party willing to enter into a business combination or other strategic transaction on terms equivalent to or more attractive than the terms that FNF has agreed to in the Merger Agreement.

In addition, if the Mergers are not completed, we may experience negative reactions from the financial markets and from our customers and employees. We could also be subject to litigation related to any failure to complete the Mergers or to enforcement proceedings commenced against us to perform our obligations under the Merger Agreement. If the Mergers are not completed, we cannot assure our stockholders that the risks described above will not materialize and will not adversely affect the business, financial results and stock prices of Stewart.

The Merger Agreement contains provisions that limit our ability to pursue alternatives to the Mergers, could discourage a potential competing acquirer from making a favorable alternative transaction proposal and, in specified circumstances, could require us to pay a termination fee of $33 million to FNF.

Under the Merger Agreement, we are restricted from entering into an alternative transaction. Unless and until the Merger Agreement is terminated, subject to specified exceptions, we are restricted from soliciting, initiating, knowingly facilitating, knowingly encouraging or knowingly inducing or negotiating, any inquiry, proposal or offer for a competing acquisition proposal with any person. Additionally, under the Merger Agreement, in the event of a potential change by our board of its recommendation with respect to the Mergers in light of a superior proposal, we must provide FNF with four business days' notice to allow FNF to propose an adjustment to the terms and conditions of the Merger Agreement. We may terminate the Merger Agreement and enter into an agreement with respect to a superior proposal only if specified conditions have been satisfied, including compliance with the no solicitation and termination provisions of the Merger Agreement. These provisions could discourage a third party that may have an interest in acquiring all or a significant part of Stewart from considering or proposing that acquisition, even if such third party were prepared to pay consideration with a higher per share cash or market value than the market value proposed to be received or realized in the Mergers, or might result in a potential competing acquirer proposing to pay a lower price than it would otherwise have proposed to pay because of the added expense of the termination fee that may become payable in specified circumstances.

Under the Merger Agreement, we may be required to pay to FNF a termination fee of $33 million if the Merger Agreement is terminated under specified circumstances. If such a termination fee is payable, the payment of this fee could have material and adverse consequences to our financial condition and operations.

We are subject to business uncertainties and contractual restrictions while the Mergers are pending, which could adversely affect our business and operations.

Under the terms of the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Mergers, which may adversely affect our ability to execute certain of our business strategies, including the ability in certain cases to enter into contracts or incur capital expenditures to grow our business. Such limitations could negatively affect our businesses and operations prior to the completion of the Mergers. Furthermore, the process of planning to integrate two businesses and organizations for the post-merger period can divert management attention and company resources and could ultimately have an adverse effect on us.

In connection with the pending Mergers, it is possible that some customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us as a result of the proposed Mergers, which could negatively affect our revenues, earnings and cash flows, as well as the market price of shares of our Common Stock, regardless of whether the Mergers are completed.

Because the exchange ratio is fixed and because the market price of FNF Common Stock and our Common Stock will fluctuate, our stockholders receiving FNF Common Stock as part of the merger consideration cannot be sure of the market value of such merger consideration relative to the value of their shares of our Common Stock that they are exchanging.

If the Mergers are completed, each share of our Common Stock will be converted into the right to receive either $50.00 in cash, 1.2850 shares of FNF Common Stock or $25.00 in cash and 0.6425 shares of FNF Common Stock (subject to the adjustment and proration procedures set forth in the Merger Agreement). During the pendency of the Mergers, the market value of FNF Common Stock will fluctuate, and decreases in the market value of FNF Common Stock will negatively affect the value of the merger consideration that our stockholders receive. The market value of our Common Stock will also fluctuate during the pendency of the Mergers, and increases in the market value of our Common Stock may mean that the merger consideration issued to our stockholders will be worth less than the market value of the shares of our Common Stock such stockholders are exchanging. The exchange ratio was fixed at the time the Merger Agreement was executed, and the value of FNF and Stewart stock may vary significantly from their values on the date of the Merger Agreement, the date of this report, the date on which our stockholders make their election and the date on which our stockholders receive the merger consideration. Neither Stewart nor FNF is permitted to terminate the Merger Agreement solely due to changes in the market price of either party’s common stock.

There will be a time lapse between the date on which our stockholders make an election with respect to the form of merger consideration to be received by them in exchange for their Common Stock and the date on which our stockholders actually receive FNF Common Stock, depending on their election and subject to proration. Fluctuations in the market value of FNF stock during this time period will also affect the value of the merger consideration, once it is actually received.

If any of our stockholders makes a stock election or mixed election and the market value of FNF Common Stock falls between the time of the election and the time the merger consideration is actually received, the value of the merger consideration received may be less than the value of the merger consideration such stockholder would have received under a cash election. Conversely, if any of our stockholders makes a cash election and the market value of FNF Common Stock rises between the time of the election and the time the merger consideration is actually received, the value of the merger consideration received may be less than the value of the merger consideration such stockholder would have received under a stock or mixed election. Our stockholders are urged to obtain current market quotations for FNF Common Stock when they make their elections.

If the Mergers are approved, the date that our stockholders will receive the merger consideration is uncertain and, due to potential divestitures required by regulatory authorities, the per share purchase price may be adjusted downwards.

If the proposed Mergers are approved, the date that our stockholders will receive the merger consideration depends on the completion date of the Mergers, which is uncertain. Additionally, under the terms of the Merger Agreement, if the combined company is required to divest assets or businesses with 2017 annual revenues in excess of $75 million in order to receive required regulatory approvals (up to a cap of $225 million of 2017 annual revenues), the per share purchase price will be adjusted downwards on a sliding scale between such amounts of divestitures up to a maximum reduction of $4.50 in value in the event that businesses or assets with 2017 annual revenues of $225 million are divested.

There can be no assurance that a divestiture or divestitures of businesses and assets in excess of $75 million in 2017 annual revenues will not occur, and accordingly there can be no assurance that holders of our Common Stock will receive (i) for those who make an election for the Cash Election Consideration, $50.00 per share in cash instead of an amount less than $50.00 per share in cash (but in any case, no less than $45.50 per share in cash), (ii) for those who make an election for the Stock Election Consideration, an amount of FNF Common Stock equal to 1.2850 shares of FNF Common Stock per share of our Common Stock instead of an amount of FNF Common Stock less than 1.2850 shares of FNF common stock per share of our common stock calculated based on a reduced exchange ratio for the number of shares of FNF Common Stock per share of our Common Stock or (iii) for those who make an election for the Mixed Election Consideration, $25.00 per share in cash and an amount of FNF Common Stock equal to 0.6425 shares of FNF Common Stock per share of our Common Stock instead of an amount less than $25.00 per share in cash and an amount of FNF Common Stock less than 0.6425 shares of FNF Common Stock per share of our Common Stock calculated based on a reduced exchange ratio for the number of shares of FNF Common Stock per share of our Common Stock, as applicable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease under a non-cancelable operating lease that is expiring in September 2019 approximately 183,000 square feet of space in an office building in Houston, Texas, which is used for our corporate offices and for offices of several of our subsidiaries. Upon expiration of this lease, we plan to relocate our corporate and other subsidiaries' offices to an approximately 150,000 square feet of new space in Houston, Texas leased under a non-cancelable operating lease that expires in 2025. Additionally, we lease offices at approximately 513 locations for title office operations, production, administrative and technology centers. These additional locations include significant leased facilities in Glendale, California; Houston, Texas; New York, New York; Dallas, Texas; Denver, Colorado; St. Louis, Missouri; Austin, Texas; and San Diego, California.

Our leases expire from 2019 through 2029 and our typical lease term ranges from three to five years. We believe we will not have any difficulty obtaining renewals of leases as they expire or, alternatively, leasing comparable properties. The aggregate annual rent expense under all office leases was approximately $40.8 million in 2018.

We also own office buildings in Arizona, Texas, New York, New Mexico, Colorado and the United Kingdom. These owned properties are not material to our consolidated financial condition. We consider all buildings and equipment that we own or lease to be well maintained, adequately insured and generally sufficient for our purposes.

Item 3. Legal Proceedings

See discussion of legal proceedings in Note 18 to our audited consolidated financial statements, included in Item 15 of Part IV of this report on Form 10-K for the year ended December 31, 2018.

Item 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market and Holders Information. Our Common Stock is listed on the NYSE under the symbol "STC". As of February 22, 2019, the number of stockholders of record was approximately 5,323 and the price of one share of our Common Stock was $43.17.

Stock Performance Graph. The following table and graph compares the yearly percentage change in our cumulative total stockholder return on Common Stock with the cumulative total return of the Russell 2000 Index and the Russell 2000 Financial Services Sector Index for the five years ended December 31, 2018. The presented information assumes that the value of the investment in our Common Stock and each index was $100 at December 31, 2013 and that all dividends were reinvested.

	2013	2014	2015	2016	2017	2018
Stewart	100.00	115.09	118.38	150.03	141.68	142.55
Russell 2000 Index	100.00	104.89	109.52	132.82	152.31	135.60
Russell 2000 Financial Services Sector Index	100.00	108.86	109.51	143.52	151.78	135.28

The performance graph above and the related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Exchange Act, as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

Stock Repurchases. There were no stock repurchases during 2018, except for repurchases of approximately 28,600 shares (aggregate purchase price of approximately $1.2 million) related to statutory income tax withholding on the annual vesting of restricted share grants to executives and senior management.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data, which were derived from our consolidated financial statements and should be read in conjunction with our audited consolidated financial statements, including the Notes thereto, beginning on page F-1 of this report. See also Item 7 - MD&A.

	2018	2017	2016	2015	2014
	($ millions, except percentage, share and per share data)				
Total revenues	1,907.7	1,955.7	2,006.6	2,033.9	1,870.8
Title operating revenues	1,837.2	1,878.7	1,904.1	1,888.4	1,714.4
Ancillary services revenues	50.7	55.8	84.3	130.0	132.9
Investment income	19.7	18.9	18.9	16.9	16.8
Investment and other gains (losses) - net	0.1	2.2	(0.7)	(1.4)	6.7
Title loss provisions	71.5	96.5	91.1	106.3	81.3
% title operating revenues	3.9	5.1	4.8	5.6	4.7
Pretax income[(1)]	72.5	75.1	88.0	9.7	51.8
Net income (loss) attributable to Stewart	47.5	48.7	55.5	(6.2)	29.8
Cash provided by operations	84.2	108.1	123.0	80.5	64.0
Total assets	1,372.9	1,405.9	1,341.7	1,321.6	1,392.5
Notes payable and convertible senior notes	108.0	109.3	106.8	102.4	71.2
Stockholders' equity	679.8	678.8	648.8	637.1	700.5
Per share data:					
Diluted average shares outstanding (millions)	23.7	23.6	23.5	23.5	24.7
Basic earnings (loss) attributable to Stewart	2.02	2.08	1.86	(0.26)	1.31
Diluted earnings (loss) attributable to Stewart	2.01	2.06	1.85	(0.26)	1.24
Cash dividends	1.20	1.20	1.20	0.80	0.10
Stockholders' equity	28.66	28.62	27.69	27.30	29.18
Market price:					
High	47.37	48.03	48.60	44.01	37.87
Low	38.72	34.48	30.34	35.12	27.02
Year end	41.40	42.30	46.08	37.33	37.04

(1) Pretax income figures are before noncontrolling interests.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
MANAGEMENT'S OVERVIEW

We reported net income attributable to Stewart of $11.4 million ($0.48 per diluted share) for the fourth quarter 2018, compared to net income attributable to Stewart of $15.1 million ($0.64 per diluted share) for the fourth quarter 2017. Pretax income before noncontrolling interests for the fourth quarter 2018 was $19.7 million compared to pretax income before noncontrolling interests of $17.5 million for the fourth quarter 2017.

Fourth quarter 2018 results included:

- $3.0 million of third-party advisory expenses related to the FNF merger transaction included in other operating expenses within the ancillary services and corporate segment,
- $4.0 million of net unrealized losses relating to changes in fair value of equity securities investments (which were being recorded to other comprehensive income prior to the adoption of a new accounting standard in 2018),
- $1.2 million of litigation expense related to a 2013 lender services acquisition included in other operating expenses within the ancillary services and corporate segment,
- $1.0 million of executive severance expenses included in employee costs within the title and ancillary services and corporate segments, and
- $0.8 million of office closure costs included in other operating expenses within the title segment.

Fourth quarter 2017 results included:

- $2.9 million of third party advisory expenses relating to the strategic alternatives review included in other operating expenses within the ancillary services and corporate segment,
- $3.5 million of office closure costs (primarily lease termination and litigation expenses) included in other operating expenses within the title segment,
- $1.0 million of acquisition integration expenses included in other operating expenses within the title segment,
- $1.7 million of executive severance and retention expenses included in employee costs within the title and ancillary services and corporate segments, and
- $6.6 million of net income tax benefits related to the effects of the Tax Cuts and Jobs Act (the 2017 Act), which was enacted in December 2017.

Summary results of the title segment are as follows ($ in millions, except pretax margin):

	For the Three Months Ended December 31,		
	2018	2017	% Change
Total operating revenues	457.3	506.4	(10)%
Investment income and other net gains	0.7	8.2	(91)%
Pretax income	29.5	27.0	9 %
Pretax margin	6.4 %	5.2 %	

Title operating revenues in the fourth quarter 2018 decreased 10% compared to the prior year quarter as direct title and independent agency revenues decreased 7% and 12%, respectively. Included in investment income and other net gains were $4.0 million of net unrealized losses relating to changes in fair value of equity securities investments in the fourth quarter 2018, as compared to $3.3 million of net realized gains from the sale of investments available-for-sale in the fourth quarter 2017. The segment’s pretax income improved to $29.5 million in the fourth quarter 2018, compared to $27.0 million in the fourth quarter 2017, as a result of the lower overall title operating expenses offsetting the segment’s reduced revenues.

Included in the non-commercial domestic revenues for the fourth quarter are revenues from purchase transactions, which decreased $5.0 million, and centralized title operations (processing primarily refinancing and default title orders), which declined $5.7 million compared to the fourth quarter 2017. These declines were primarily due to the lower purchase and refinancing closed orders, which, in total, decreased 16% in the fourth quarter 2018 compared to the prior year quarter. Total fourth quarter 2018 commercial revenues decreased $5.9 million, or 8%, compared to the fourth quarter 2017. Fourth quarter 2018 commercial fee per file increased 3% to approximately $10,300 due to increased transaction sizes, while domestic residential fee per file increased 11% to approximately $2,300 as a result of the mix shift to more purchase transactions. Commercial and domestic residential fees per file for the full year 2018 increased to $8,600 (22%) and $2,200 (8%), respectively, compared to last year.

	For the Three Months Ended December 31,		
	2018	2017	% Change
	($ in millions)		
Non-commercial			
Domestic	123.3	134.0	(8)%
International	21.4	21.0	2 %
	144.7	155.0	(7)%
Commercial:			
Domestic	59.5	59.1	1 %
International	6.1	12.4	(51)%
	65.6	71.5	(8)%
Total direct title revenues	210.3	226.5	(7)%

Gross revenues from independent agency operations declined 12% in the fourth quarter 2018, as compared to last year's quarter, primarily as a result of reductions in generally high agency volume states, which include New York, Texas, Florida and California. The independent agency remittance rate of 17.8% in the fourth quarter 2018 remained comparable to the prior year quarter.

Summary results of the ancillary services and corporate segment are as follows ($ in millions):

	For the Three Months Ended December 31,		
	2018	2017	% Change
Total revenues	11.9	11.1	8 %
Pretax loss	(9.8)	(9.6)	(2)%

Fourth quarter 2018 segment revenues improved 8% compared to the prior year quarter, primarily due to increased revenues from search services. Excluding the non-operating charges noted above for the segment, the fourth quarter 2018 pretax loss would have been $5.2 million, compared to $5.6 million in the prior year quarter. Additionally, the segment's results for the fourth quarter 2018 and 2017 included approximately $5.5 million and $5.1 million, respectively, of net expenses attributable to parent company and corporate operations (excluding the non-operating charges).

CRITICAL ACCOUNTING ESTIMATES

Actual results can differ from our accounting estimates. While we do not anticipate significant changes in our estimates, there is a risk that such changes could have a material impact on our consolidated financial condition or results of operations for future periods. The discussion of critical accounting estimates below should be read in conjunction with the related accounting policies disclosed within Note 1 to our audited consolidated financial statements.

Title loss reserves

Provisions for title losses, as a percentage of title operating revenues, were 3.9%, 5.1% and 4.8% for the years ended December 31, 2018, 2017 and 2016, respectively. Actual loss payment experience, including the impact of large losses, is the primary reason for increases or decreases in our loss provision. A 100 basis point change in the loss provisioning percentage, a reasonably likely scenario based on our historical loss experience, would have increased or decreased our provision for title losses and pretax operating results by approximately $18.4 million for the year ended December 31, 2018.

We consider our actual claims payments and incurred loss experience, including the frequency and severity of claims, compared to our actuarial estimates of claims payments and incurred losses in determining whether our overall loss experience has improved or worsened compared to prior periods. We also consider the impact of economic or market factors on particular policy years to determine whether the results of those policy years are indicative of future expectations. In addition, large claims, including large title losses due to independent agency defalcations, are analyzed and reserved for separately due to the potential higher dollar amount of loss, lower volume of claims reported and sporadic reporting of such claims. We evaluate the frequency and severity of large losses in determining whether our experience has improved or worsened. Our method for recording the reserves for title losses on both an interim and annual basis begins with the calculation of our current loss provision rate which is applied to our current premium revenues, resulting in a title loss expense for the period. This loss provision rate is set to provide for losses on current year policies and is primarily determined using moving average ratios of recent actual policy loss payment experience (net of recoveries) to premium revenues.

Due to the inherent uncertainty in predicting future title policy losses, significant judgment is required by our management and our third party actuaries in estimating reserves. As a consequence, our ultimate liability may be materially greater or lower than current reserves and/or our third party actuary's calculated estimates.

Provisions for known claims arise primarily from prior policy years as claims are not typically reported until several years after policies are issued. Provisions - Incurred But Not Reported (IBNR) are estimates of claims expected to be incurred over the next 20 years; therefore, it is not unusual or unexpected to experience changes to those estimated provisions in both current and prior policy years as additional loss experience on policy years is obtained. This loss experience may result in changes to our estimate of total ultimate losses expected (i.e., the IBNR policy loss reserve). Current year provisions - IBNR are recorded on policies issued in the current year as a percentage of premiums earned (provisioning rate). As claims become known, provisions are reclassified from IBNR to known claims. Adjustments relating to large losses (those individually in excess of $1.0 million) may impact provisions either for known claims or for IBNR.

	2018	2017	2016
	($ in millions)		
Provisions – Known Claims:			
Current year	18.2	18.2	20.6
Prior policy years	61.6	59.3	64.8
	79.8	77.5	85.4
Provisions – IBNR			

Current year	52.3	72.2	71.7
Prior policy years	1.0	6.1	(1.2)
	53.3	78.3	70.5
Transferred IBNR to Known Claims	(61.6)	(59.3)	(64.8)
Total provisions	71.5	96.5	91.1

In 2018, total known claims provisions increased to $79.8 million from $77.5 million in 2017, as a result of slightly higher reported claims relating to prior year policies. Total 2018 provisions - IBNR decreased by $25.0 million to $53.3 million compared to the prior year, primarily due to a lower provisioning rate related to current year policies and a $4.0 million prior policy year reserve reduction during the year, both influenced by our favorable claims experience. In 2017, total known claims provisions decreased to $77.5 million from $85.4 million in 2016, as a result of lower dollar amounts of claims reported to us relating to both current and prior year policies. Total provisions - IBNR increased in 2017 by $7.8 million to $78.3 million compared to 2016, principally due to a higher current year loss provisioning rate related to certain foreign operations and an unfavorable loss experience related to prior years' policies. As a percentage of title operating revenues, current year provisions - IBNR were 2.8%, 3.8% and 3.8% in 2018, 2017 and 2016, respectively.

In addition to title policy claims, we incur losses in our direct operations from escrow, closing and disbursement functions. These escrow losses typically relate to errors or other miscalculations of amounts to be paid at closing, including timing or amount of a mortgage payoff, payment of property or other taxes and payment of homeowners' association fees. Escrow losses also arise in cases of fraud, and in those cases, the title insurer incurs the loss under its obligation to ensure that an unencumbered title is conveyed. Escrow losses are recognized as expense when discovered or when contingencies associated with them (such as litigation) are resolved and are typically paid less than 12 months after the loss is recognized. For the years ended December 31, 2018, 2017 and 2016, we accrued approximately $6.9 million, $5.0 million and $8.3 million, respectively, for policy loss reserves relating to escrow losses arising principally from mortgage fraud.

Large title losses due to independent agency defalcations typically occur when the independent agency misappropriates funds from escrow accounts under its control. Such losses are usually discovered when the independent agency fails to pay off an outstanding mortgage loan at closing (or immediately thereafter) from the proceeds of the new loan. These incurred losses are typically more severe in terms of dollar value compared with traditional title policy claims since the independent agency is often able, over time, to conceal misappropriation of escrow funds relating to more than one transaction through the constant volume of funds moving through its escrow accounts. In declining real estate markets, lower transaction volumes result in a lower incoming volume of funds, making it more difficult to cover up the misappropriation with incoming funds. Thus, when the defalcation is discovered, it often relates to several transactions. In addition, the overall decline in an independent agency's revenues, profits and cash flows increases the agency's incentive to improperly utilize the escrow funds from real estate transactions. For the three years ended December 31, 2018, our net title losses due to independent agency defalcations were immaterial.

Internal controls relating to independent agencies include, but are not limited to, periodic audits, site visits and reconciliations of policy inventories and premiums. The audits and site visits cover examination of the escrow account bank reconciliations and an examination of a sample of closed transactions. In some instances, the scope of our review is limited by attorney agencies that cite client confidentiality. Certain states have mandated annual reviews of agencies by their underwriter. We also determine whether our independent agencies have appropriate internal controls as defined by the American Land Title Association's best practices and us. However, even with adequate internal controls in place, their effectiveness can be circumvented by collusion or improper override of the controls by management at the independent agencies. To aid in the selection of independent agencies to review, we have developed an agency risk model that aggregates data from different areas to identify possible issues. This is not a guarantee that all independent agencies with deficiencies will be identified. In addition, we are typically not the only underwriter for which an independent agency issues policies, and independent agencies may not always provide complete financial records for our review.

Agency revenues

We recognize revenues on title insurance policies written by independent agencies when the policies are reported to us. In addition, where reasonable estimates can be made, we accrue for revenues on policies issued but not reported until after period end. We believe that reasonable estimates can be made when recent and consistent policy issuance information is available. Our estimates are based on historical reporting patterns and other information about our independent agencies. We also consider current trends in our direct operations and in the title industry. In this accrual, we are not estimating future transactions; we are estimating revenues on policies that have already been issued by independent agencies but not yet reported to or received by us. We have consistently followed the same basic method of estimating unreported policy revenues for more than 10 years.

Our accruals for revenues on unreported policies from independent agencies were not material to our consolidated financial statements as of December 31, 2018 and 2017. The differences between the amounts our independent agencies have subsequently reported to us compared to our estimated accruals are substantially offset by any differences arising from prior years' accruals and have been immaterial relative to consolidated assets and stockholders' equity during each of the three prior years. We believe our process provides the most reliable estimate of the unreported revenues on policies and appropriately reflects the trends in agency policy activity.

Goodwill impairment

Goodwill is not amortized, but is reviewed annually during the third quarter using June 30 balances, or whenever occurrences of events indicate a potential impairment at the reporting unit level. We evaluate goodwill based on four reporting units with goodwill balances - direct operations, agency operations, international operations and ancillary services.

We have an option to assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. In performing the qualitative assessment, we consider factors that include macroeconomic conditions, industry and market considerations, overall actual and expected financial performance, market perspective on the Company, as well as other relevant events and circumstances determined by management. We evaluate the weight of each factor to determine whether an impairment more-likely-than-not exists. If we decide not to use a qualitative assessment or if the reporting unit fails the qualitative assessment, we perform the quantitative impairment analysis.

The quantitative analysis involves the comparison of the fair value of each reporting unit to its carrying amount. The goodwill impairment is calculated as the excess of the reporting unit's carrying amount over the estimated fair value and is charged to current operations. While we are responsible for assessing whether an impairment of goodwill exists, we utilize inputs from third-party appraisers in performing the quantitative analysis. We estimate the fair value using a combination of the income approach (discounted cash flow (DCF) technique) and the market approach (guideline company and precedent transaction analyses). The DCF model utilizes historical and projected operating results and cash flows, initially driven by estimates of changes in future revenue levels, and risk-adjusted discount rates. Our projected operating results are primarily driven by anticipated mortgage originations, which we obtain from projections by industry experts, for our title reporting units and expected contractual revenues for our ancillary services reporting unit. Fluctuations in revenues, followed by our ability to appropriately adjust our employee count and other operating expenses, or large and unanticipated adjustments to title loss reserves, are the primary reasons for increases or decreases in our projected operating results. Our market-based valuation methodologies utilize (i) market multiples of earnings and/or other operating metrics of comparable companies and (ii) our market capitalization and a control premium based on market data and factors specific to our ownership and corporate governance structure.

The valuation techniques performed in our quantitative analysis make use of our estimates and assumptions related to critical factors, which include revenue and operating margin growth rates, future market conditions, determination of market multiples and comparative companies, assignment of a control premium, and determination of risk-adjusted discount rates. Forecasts of future operations are based, in part, on actual operating results and our expectations as to future market conditions. Our calculation of fair value requires analysis of a range of possible outcomes and applying weights to each of the valuation technique used. Due to the uncertainty and complexity of performing the goodwill impairment analysis, actual results may not be consistent with our estimates and assumptions, which may result in a future material goodwill impairment.

During 2018 and 2017, we concluded that the goodwill related to each of our reporting units was not impaired after performing our impairment analysis. We utilized the quantitative analysis in 2018, while we performed the qualitative assessment in 2017. Refer to Note 8 to our audited consolidated financial statements for details on goodwill.

Operations. Our primary business is title insurance and settlement-related services. We close transactions and issue title policies on homes, commercial and other real properties located in all 50 states, the District of Columbia and international markets through policy-issuing offices, independent agencies and centralized title services centers. Our ancillary services and corporate segment includes our parent holding company expenses and certain enterprise-wide overhead costs, along with our ancillary services operations, principally search and valuation services.

Factors affecting revenues. The principal factors that contribute to changes in operating revenues for our title and ancillary services and corporate segments include:

- mortgage interest rates;
- availability of mortgage loans;
- number and average value of mortgage loan originations;
- ability of potential purchasers to qualify for loans;
- inventory of existing homes available for sale;
- ratio of purchase transactions compared with refinance transactions;
- ratio of closed orders to open orders;
- home prices;
- consumer confidence, including employment trends;
- demand by buyers;
- number of households;
- premium rates;
- foreign currency exchange rates;
- market share;
- ability to attract and retain highly productive sales executives and associates;
- independent agency remittance rates;
- opening of new offices and acquisitions;
- number and value of commercial transactions, which typically yield higher premiums;
- government or regulatory initiatives, including tax incentives and the implementation of the new integrated disclosure requirements;
- acquisitions or divestitures of businesses;
- volume of distressed property transactions; and
- seasonality and/or weather.

Premiums are determined in part by the values of the transactions we handle. To the extent inflation or market conditions cause increases in the prices of homes and other real estate, premium revenues are also increased. Conversely, falling home prices cause premium revenues to decline. As an overall guideline, a 5% change in median home prices results in an approximate 3.7% change in title premiums. Home price changes may override the seasonal nature of the title insurance business. Historically, our first quarter is the least active in terms of title insurance revenues as home buying is generally depressed during winter months. Our second and third quarters are the most active as the summer is the traditional home buying season, and while commercial transaction closings are skewed to the end of the year, individually large commercial transactions can occur any time of year.

Industry data. Published mortgage interest rates and other selected residential housing data for the years ended December 31, 2018, 2017 and 2016 are shown below (amounts shown for 2018 are preliminary and subject to revision). The amounts below may not relate directly to or provide accurate data for forecasting our operating revenues or order counts. Our statements on home sales, mortgage interest rates and loan activity are based on published industry data from sources including Fannie Mae, the National Association of Realtors®, the Mortgage Bankers Association and Freddie Mac.

	2018	2017	2016
Mortgage interest rates (30-year, fixed-rate) – %			
Averages for the year	4.54	3.99	3.65
First quarter	4.27	4.17	3.74
Second quarter	4.54	3.99	3.59
Third quarter	4.57	3.89	3.45
Fourth quarter	4.78	3.92	3.81
Mortgage originations – $ billions	1,626	1,826	2,052
Refinancings – % of originations	28.4	35.6	48.7
New home sales – in millions	0.62	0.61	0.56
New home sales – median sales price in $ thousands	331.0	323.0	307.8
Existing home sales – in millions	5.34	5.51	5.45
Existing home sales – median sales price in $ thousands	259.1	247.2	233.8

Total mortgage originations in 2018 declined for the second consecutive year as refinancing lending decreased 29% in 2018 compared to 2017. However, Fannie Mae forecasts total mortgage originations to stabilize in 2019 with purchase lending expected to modestly increase 2%, offsetting the forecasted 8% further decline in refinancing lending. Compared to the prior year, 2018 new home sales remained flat, while 2018 existing home sales declined 3% influenced by higher mortgage interest rates and increased home prices. For the three years ended December 31, 2018, average monthly mortgage interest rates (30-year, fixed-rate) have risen from a low of 3.44% in July 2016 to a high of 4.87% in November 2018. For the year 2019, Fannie Mae projects the 30-year mortgage rate to average at 4.5%, comparable to 2018, and new and existing home sales volumes to remain similar to 2018 volumes.

RESULTS OF OPERATIONS

A comparison of our consolidated results of operations for 2018 to 2017 and 2017 to 2016 is discussed as follows. Factors contributing to fluctuations in our results of operations are presented in the order of their monetary significance, and we have quantified, when necessary, significant changes. Results from our ancillary services and corporate segment are included in year-to-year discussions and, when relevant, are discussed separately. Our employee costs and certain other operating expenses are sensitive to inflation.

Title revenues. Direct title revenue information is presented below:

	Year Ended December 31			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
	($ in millions)				
Non-commercial					
Domestic	520.8	551.8	606.4	(6)%	(9)%
International	87.4	96.9	92.5	(10)%	5 %
	608.2	648.7	698.9	(6)%	(7)%
Commercial:					

Domestic	200.5	186.5	176.4	8 %	6 %
International	24.5	27.2	19.0	(10)%	43 %
	225.0	213.7	195.4	5 %	9 %
Total direct title revenues	833.2	862.4	894.3	(3)%	(4)%

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Revenues from direct title operations in 2018 decreased $29.2 million, or 3%, compared to 2017, primarily as a result of lower non-commercial domestic and international revenues, which were partially offset by higher commercial revenues. Non-commercial domestic revenues include revenues from purchase transactions and centralized title operations (processing primarily refinancing and default title orders), which decreased 2% and 48%, respectively, primarily due to the lower purchase and refinancing orders. Total commercial revenues increased $11.3 million, or 5%, as influenced by our continued focus on delivering quality service and underwriting to our commercial customers. Total international revenues declined $12.2 million, or 10%, primarily due to lower transaction volumes from our Canada operations, partially offset by growth from our United Kingdom operations.

Revenues from direct title operations in 2017 decreased $31.9 million, or 4%, compared to 2016, primarily as a result of overall declines in refinancing and purchase transaction revenues, partially offset by higher commercial and international revenues. Revenues from purchase transactions and centralized title operations decreased 7% and 26%, respectively, primarily as a result of lower purchase and refinancing orders closed. Total commercial revenues improved $18.3 million, or 9%, primarily driven by a higher domestic commercial fee per file and increased input from our international operations. Total international revenues improved $12.6 million, or 11%, due to higher commercial revenues and transaction volume growth from our United Kingdom and Canada operations.

Closed and opened orders information is as follows:

	Year Ended December 31			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Opened Orders:					
Commercial	32,303	42,871	46,553	(25)%	(8)%
Purchase	227,787	239,148	245,697	(5)%	(3)%
Refinance	83,231	98,990	147,205	(16)%	(33)%
Other	8,997	17,610	12,648	(49)%	39 %
Total	352,318	398,619	452,103	(12)%	(12)%
Closed Orders:					
Commercial	26,074	30,286	32,234	(14)%	(6)%
Purchase	171,219	184,532	192,303	(7)%	(4)%
Refinance	54,986	71,885	106,796	(24)%	(33)%
Other	8,567	12,523	16,594	(32)%	(25)%
Total	260,846	299,226	347,927	(13)%	(14)%

Gross revenues from independent agency operations declined $12.4 million, or 1%, in 2018 compared to 2017; while revenues increased $6.6 million, or approximately 1%, in 2017 compared to 2016. The 2018 gross revenue decrease was driven by decreases primarily in Massachusetts, Utah, Colorado, Michigan, California, Minnesota, and Georgia, partially offset by increases from Texas, Pennsylvania and Idaho. The 2017 gross revenue improvement was driven by increases, primarily from Michigan, California, Minnesota, Ohio, Colorado and Arizona, partially offset by declines in Massachusetts, Florida, Texas and New York. 2018 net agency revenues (net of agency retention) decreased $2.3 million, or 1%, compared to 2017, primarily due to lower gross agency revenues; while 2017 net agency revenues decreased $4.5 million, or 3%, compared to 2016, primarily due to the lower average agency remittance rate. Refer further to the "Retention by independent agencies" discussion under Expenses below.

Title revenues by geographic location. The approximate amounts and percentages of consolidated title operating revenues for the last three years were as follows:

	Amounts ($ millions)			Percentages		
	2018	2017	2016	2018	2017	2016
Texas	340	328	362	19 %	17 %	19 %
New York	224	226	226	12 %	12 %	12 %
California	130	140	125	7 %	8 %	7 %
International	119	131	116	6 %	7 %	6 %
Florida	76	78	87	4 %	4 %	5 %
All others	948	976	988	52 %	52 %	51 %
	1,837	1,879	1,904	100%	100%	100%

Ancillary services revenues. Ancillary services revenues in 2018 decreased $5.1 million, or 9%, compared to 2017, as a result of lower revenues from valuation services due to decreased demand, partially offset by increased revenues from our search services business. Ancillary services revenues in 2017 decreased $28.4 million, or 34%, in 2017, compared to 2016, primarily due to our divestitures of the loan file review, quality control services and government services lines of business at the end of 2016.

Investment income. Investment income for 2018 slightly increased to $19.7 million from $18.9 million in 2017, primarily due to increased income on higher short-term investments and cash equivalents balances. Investment income for 2017 was $18.9 million, which was comparable to 2016. Refer to Note 6 to our audited consolidated financial statements for additional details.

Realized investment and other gains (loss) - net. In 2018, investments and other gains - net included $1.3 million of realized gains from sales of equity investments with no previously readily determinable fair values and $2.2 million of net unrealized investment losses on equity securities held at year-end. Refer to Notes 1-Q and 6 to our audited consolidated financial statements for additional details.

In 2017, investment and other gains - net included $3.2 million of net realized gains from the sale of securities investments, partially offset by $0.8 million of net realized loss due to an increase in the fair value of a contingent consideration liability related to a prior acquisition.

In 2016, investment and other losses - net included $3.4 million of realized loss related to the exit of a service offering, and $3.3 million of realized losses from sale of certain businesses within ancillary services operations, partially offset by $4.0 million of net realized gains from the sale of securities investments and $1.2 million of realized gain related to an exchange transaction of an equity investment with previously no readily determinable fair value.

Expenses. An analysis of expenses is shown below:

	Year Ended December 31			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
	($ in millions)				
Amounts retained by independent agencies	827.0	837.1	826.0	(1)%	1 %
As a % of agency revenues	82.4 %	82.4 %	81.8 %		
Employee costs	562.5	566.2	604.4	(1)%	(6)%

As a % of operating revenues	29.8 %	29.3 %	30.4 %		
Other operating expenses	345.3	351.5	364.0	(2)%	(3)%
As a % of operating revenues	18.3 %	18.2 %	18.3 %		
Title losses and related claims	71.5	96.5	91.1	(26)%	6 %
As a % of title revenues	3.9 %	5.1 %	4.8 %		

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Expense comparisons for the three years ended December 31, 2018 are influenced by the following net charges:

	2018	2017	2016
	($000 omitted)		
Ancillary services and corporate segment:			
FNF merger and strategic alternatives review expenses	12,673	2,868	—
Litigation-related accruals	1,200	—	3,599
Severance and retention expenses	354	1,095	—
Class B Common Stock exchange expenses	—	—	2,193
Shareholder activism and settlement charges	—	—	1,186
Accelerated depreciation from the exit of delinquent loan servicing activities	—	—	1,089
Cost Management Program and severance expenses	—	—	442
Total ancillary services and corporate segment	14,227	3,963	8,509
Title segment:			
Office closures: early lease terminations and asset write-offs	750	3,178	—
Severance and retention expenses	635	595	—
Title365 acquisition and integration-related expenses	—	2,368	—
Litigation-related accruals	—	350	—
Prior policy reserve adjustments, net	—	—	(5,400)
Total title segment	1,385	6,491	(5,400)
Total charges	15,612	10,454	3,109

Retention by independent agencies. Amounts retained by independent agencies are based on agreements between the agencies and our title underwriters. Amounts retained by independent agencies, as a percentage of revenues generated by them, averaged 82.4%, 82.4% and 81.8% in 2018, 2017 and 2016, respectively. The increase of the agency retention rate in 2017 compared to 2016 was primarily due to decreased revenues in higher-remitting states and increased revenues in lower-remitting states during 2017. The average retention percentage may vary from year-to-year due to the geographical mix of agency operations, the volume of title revenues and, in some states, laws or regulations. Due to the variety of such laws or regulations, as well as competitive factors, the average retention rate can differ significantly from state to state. In addition, a high proportion of our independent agencies are in states with retention rates greater than 80%. We continue to focus on increasing profit margins in every state, increasing premium revenue in states where remittance rates are above 20%, and maintaining the quality of our agency network, which we believe to be the industry's best, in order to mitigate claims risk and drive consistent future performance. While market share is important in our agency operations channel, it is not as important as margins, risk mitigation and profitability.

Selected cost ratios (by segment). The following table shows employee costs and other operating expenses as a percentage of related segment operating revenues for the years ended December 31:

	Employee Costs			Other Operating Expenses		
	2018	2017	2016	2018	2017	2016
Title	29.0%	28.1%	28.3%	16.0 %	16.6%	16.1%
Ancillary services and corporate	57.1%	67.6%	77.5%	101.5%	69.2%	67.9%

Employee costs. Consolidated employee costs in 2018 and 2017, compared to the respective prior years, decreased $3.7 million, or approximately 1%, and $38.2 million, or 6%, respectively, primarily as a result of the reduction of 7% and 8%, respectively, in average employee counts related to volume declines in our title and ancillary services operations, which were partially offset by additional employee costs from title office acquisitions in 2018 and 2017. As a percentage of total operating revenues, employee costs were 29.8%, 29.3% and 30.4% in 2018, 2017 and 2016, respectively. Our total employee counts at December 31, 2018, 2017 and 2016 were approximately 5,400, 6,000 and 6,400, respectively. Average cost per employee increased 7% in 2018, compared to 2017, primarily due to increased incentive compensation on higher commercial revenues, increased retention and severance expenses, annual salary increases and the lower average employee count largely due to employee terminations in direct title operations. The average cost per employee in 2017 increased 3%, compared to 2016, primarily as a result of increased incentive compensation on higher commercial revenues and annual salary increases.

Employee costs in the title segment increased $5.2 million, or 1%, in 2018 compared to 2017, primarily due to increased incentive compensation on higher commercial revenues, which was partially offset by reduced salaries resulting from lower average employee counts, principally in direct operations. Title segment employee costs decreased $10.3 million, or 2%, in 2017 compared to 2016, due to reduced salaries and incentive compensation as a result of reductions in the average number of employees, also primarily in direct operations.

The ancillary services and corporate segment's employee costs in 2018 and 2017 decreased $8.9 million, or 24%, and $27.9 million, or 42%, compared to 2017 and 2016, respectively, due to employee count reductions relating to volume declines and the 2016 disposition of several lines of business within ancillary services.

Other operating expenses. Other operating expenses include costs that are fixed in nature, costs that follow, to varying degrees, changes in transaction volumes and revenues and costs that fluctuate independently of revenues. Costs that are fixed in nature include attorney and professional fees, third-party-outsourcing provider fees, equipment rental, insurance, rent and other occupancy expenses, repairs and maintenance, technology costs, telephone and title plant expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues include attorney fee splits, bad debt expenses, ancillary services cost of sales expenses, copy supplies, delivery fees, outside search fees, postage, premium taxes and title plant maintenance expenses. Costs that fluctuate independently of revenues include general supplies, litigation defense, business promotion and marketing and travel.

Consolidated other operating expenses decreased $6.2 million, or 2%, in 2018 compared to 2017 and also decreased $12.5 million, or 3%, in 2017 compared to 2016. As a percentage of total operating revenues, other operating costs were 18.3%, 18.2% and 18.3% in 2018, 2017 and 2016, respectively. In 2018, other operating expenses included $12.7 million of third-party advisory expenses related to the FNF merger transaction, $1.2 million of litigation expense related to a 2013 lender services acquisition and $0.8 million of office closure costs. In 2017, other operating expenses included $3.2 million of office closure costs, $2.9 million of third-party consulting fees related to the corporate strategic alternatives review, $2.4 million of Title365 acquisition integration expenses and $0.4 million of litigation expense. In 2016, other operating expenses included approximately $3.6 million for litigation-related accruals, $1.2 million of shareholder activism costs and $2.2 million of costs associated with the Class B common stock exchange agreement. Excluding the impact of these non-operating charges, other operating expenses, as a percentage of total operating revenues, would have been 17.5%, 17.7% and 18.0% in 2018, 2017 and 2016, respectively.

In 2018, excluding the charges listed above, costs fixed in nature decreased $2.4 million, or 2%, compared to 2017, primarily due to reduced professional and consulting fees and third-party outsourcing provider fees, partially offset by higher insurance expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues also decreased $9.8 million, or 6%, primarily due to lower cost of sales expenses and delivery fees in ancillary services as a result of lower ancillary services revenues, and lower attorney fee splits due to lower transaction volumes from our Canada operations. Excluding the non-operating litigation-related expenses and office closure costs, costs that fluctuate independently of revenues were comparable to the prior year.

In 2017, excluding the costs listed above, costs fixed in nature decreased $4.8 million, or 3%, compared to 2016, primarily due to reduced professional and consulting fees and insurance expense, partially offset by higher technology costs. Costs that follow, to varying degrees, changes in transaction volumes and revenues also decreased $8.3 million, or 5%, mainly due to lower bad debt expense and decreased outside search fees and cost of sales expenses in ancillary services as a result of lower ancillary services revenues. Excluding the non-operating litigation-related expenses and office closure costs, costs that fluctuate independently of revenues decreased $0.7 million, or 2%, primarily due to lower general supplies expenses.

Title losses. Provisions for title losses, as a percentage of title operating revenues, were 3.9%, 5.1% and 4.8% in 2018, 2017 and 2016, respectively. The title loss ratio in any given year can be significantly influenced by new large claims incurred as well as adjustments to reserves for existing large claims. We continue to manage and resolve large claims prudently and in keeping with our commitments to our policyholders.

For the year ended December 31, 2018, title losses decreased $25.0 million, or 26%, compared to 2017, primarily due to a lower provisioning rate related to current year policies and a $4.0 million prior policy year reserve reduction during the year, both influenced by our favorable claims experience.

For the year ended December 31, 2017, title losses increased $5.4 million, or 6%, compared to 2016, primarily due to the loss reserve reductions recorded in 2016, as detailed below. In 2017, we recorded increases to policy loss reserves of approximately $3.3 million relating to our European and Australian businesses which were more than offset by favorable adjustments to policy loss reserves for our U.S. business.

For the year ended December 31, 2016, we recorded a $3.1 million decrease to the reserve for existing large losses and a $5.4 million policy loss reserve reduction relating to non-large policy losses as a result of favorable loss development experience.

Title losses paid were $82.7 million, $84.2 million and $92.0 million in 2018, 2017 and 2016, respectively. The lower cash claims paid in 2018 compared to 2017 was due to lower payments on non-large claims; while the decrease in cash claims paid in 2017 compared to 2016 was primarily due to lower payments on large claims relating to prior policy years. Claim payments made on large title claims, net of insurance recoveries, during 2018, 2017 and 2016 were $7.3 million, $7.3 million and $14.6 million, respectively.

Our liability for estimated title losses as of December 31, 2018 and 2017 comprises both known claims and our IBNR. Known claims reserves are reserves related to actual losses reported to us. Our reserve for known claims comprises both claims related to title insurance policies as well as losses arising from escrow closing and funding operations due to fraud or error (which are recognized as expense when discovered). The amount of the reserve represents the aggregate, non-discounted future payments (net of recoveries) that we expect to incur on policy and escrow losses and in costs to settle claims.