Title Insurance Facing Disruption

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The title industry's revenue of $24 Billion in 2020, with paid claims of only 3-5% yields a GPM of a whopping 95-97%. These figures are consistent with ratios enjoyed by the title insurance monopoly for more than 60 years. Such revue and profitability are defended by the title industry as necessary to sustain its bloated infrastructure to support basic property search, examination and underwriting.

The title industry-funded trade association and lobbyist, the American Land Title Association's (ALTA) “Comprehensive Title Industry White Paper” states that 75% of Single Family Residential (SFR) real estate transactions reflect "clean" ownership and chain of title, rendering title insurance policies unnecessary for the purchase and sale of these "clean" residential real properties.

According to research firm iBiSWorld, title companies and agencies numbering greater than 5,300 employ more than 100,000 individuals in more than 10,000 title insurance offices, located in 3,100 counties throughout the country. The industry is the classic status quo, ripe for disruption, for the following reasons:

1. *A monopoly of four conglomerates control 85% of the market*
2. *Evidence that 75% of residential property transfers do not need title insurance*
3. *Pricing that is not correlated to risk*
4. *Excessive brick & mortar*
5. *High direct labor costs*
6. *80% commissions paid to agents*
7. *Federal (RESPA) regulatory action to control bribery and kickbacks*
8. *Controlled Business Agreements (CBAs) protecting monopolization*
9. *Lack of consumer choice*
10. *Excessive consumer costs*
11. *Denial of consumer claims is a common practice*
12. *Title companies execute the majority of foreclosures on their "former" customers*

The common definition of disruption is "an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market-leading firms, products, and alliances".

In the context of title insurance, the general proposition is that the title industry is ripe for disruption due to the many points of friction.

Industry pain points are the cumbersome, labor intensive, brick & mortar based, time consuming and costly nature of the title insurance underwriting and production that is reliant on searching and examining land registry records maintained in thousands of locations in disparate paper, yellow-stickies, folders, boxes of files, index cards, microfiche and software developed in the 1990s.

Many investors, lenders and Realtors believe smart contract-enabled blockchain technology development firms, data aggregators & title transfer companies and/or state-controlled land registry guarantee firms may succeed in disrupting...essentially replacing...the antiquated title insurance business.

Title insurance provides the basic function of insuring chain of title, ownership to real property and the lender's proper lien priority. There are three looming problems for the title insurance monopoly.

- One is the successful advances of smart contract-enabled blockchain technology. Blockchain is a "distributed network of computers" existing between permitted parties that utilize the infrastructure of the internet to validate and process transactions. These transactions are immutable and secured as "blocks of data" that cannot be modified or replaced.
- The second is the emergence of aggregators of data and facilitators of closings, developing deed-transfer programs, either on an uninsured or insured basis, utilizing a non-title insurance product, that simplifies the real estate transfer process for buyers, sellers, investors and self-financed lenders.
- The third is the popular adoption of the "Torrens System" of state and county authority to "guarantee" real property transfer, ownership and lien priority; prominent in use in the United States, in varying degrees, in Iowa, Maryland, Virginia, Colorado, New York, Ohio, Michigan, Pennsylvania and Washington. *Title insurance is illegal in the state of Iowa.* Torrens System is in general use in Canada, Australia, Malaysia, Ireland, Singapore and Thailand.

New technology and business models can contribute to improved title transfer transactions thereby mitigating the title insurance strategy of "reducing cost" by denying claims…which often requires consumer litigation to enforce the costly title insurance policies...including the obligation to defend against claims the consumers were forced to purchase, in order to pursue their dream of American home ownership.

While title insurers will likely pursue their own blockchain strategies, they are strapped with a centralized infrastructure of thousands of brick & mortar store fronts, dozens of title plants, dozens of claim centers, thousands of employees, hundreds of overpaid executives, outdated and disparate land record searching, a bloated operating platform of hundreds of absurd silos designed in the 1950s and regulatory restrictions enforced by RESPA in response to well publicized decades of title insurance company bribery, illegal kickbacks, and sham business alliances.

- As a defensive strategy to any of the three alternatives to title insurance discussed above, the title insurance industry may develop its own individually branded or collective blockchain initiatives, non-insurance products or collaborate with states to issue guarantees rather than insurance. Competition will limit pricing and profit.
- To develop alternatives to title insurance, they will have to admit to a questionable need for title insurance in 75% of transactions, unreasonable labor costs, a bloated bureaucracy, excessive brick & mortar, time and difficulties collecting on a claim. State insurance regulators will recognize that for decades the title insurance industry has sold products for prices not related to actual risk. Insurance regulators can be expected to "reward" the industry with substantial reductions in currently allowable title insurance premiums.

Big problem for shareholders and institutional investors...given that the title monopoly's defense of their products, services and processes will require the admission that indeed there is currently no correlation of price to risk.

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