Disruptive iBuyers Mistaken in Alliances with Status Quo Title Insurance Industry

Published on February 12, 2021

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A number of our real estate industry's leading experts appear quite bullish on the marriage of PropTech *iBuyers* to the status quo NonTech title insurance industry. Clearly the concept of *iBuyers* bundling origination and closing services is viewed as attractive to some industry observers as a method of *iBuyers* increasing the engagement of "one-stop shopping" for the purpose of increasing *iBuyer* transactional revenue.

The real issue is two-fold: 1) Do consumers really need to be force-fed bundled services from the *iBuyer*, many of such services, including title insurance, that in the majority of SFR transactions is not necessary at all; and 2) does the concept of "partnering the tech-driven disruptive concept of *iBuying* make any sense partnering with the monopolistic, status quo of the non-tech, archaic title insurance business model unchanged in 100 years.

Many industry observers view *iBuyers* drawing non-technology title insurance into their value proposition as an embarrassing embracing of the title insurance monopoly status quo for the sole purpose of increasing revenue derived by increasing consumer costs. Increasing consumer costs is precisely the opposite of the original technology-based value proposition of the *iBuyer* model that was to reduce (time and) costs for the benefit of consumers.

As a result, *iBuyers* are risking their reputation, brand equity and customer loyalty with an ill-advised plan to increase their title insurance operations, a product representing an antiquated, unnecessary and overpriced business model, in which pricing is uncorrelated to risk, and that may be the most-ripe industry in America for disruption.

Success in developing the *iBuyer* business concept, capable of transforming the real estate industry, is testament to innovative technology proven to disrupt tradition and status quo. Evidence of industry growth are legitimate alliances with the National Association of Realtor's 1.3 million licensed and trained realtors that now offer clients the option of a traditional listing and sale…or an immediate sale to an *iBuyer* affiliate. The key drive here should be “consumer choice”.

The simple concept of an immediate cash sale or purchase resonates with consumers and is anticipated by industry experts to lead to *iBuyer* participation in 25% of SFR transactions nationwide within three years.

- In anticipation, institutional investors are pouring billions of dollars of equity into *iBuyers*, to be deployed for SFR inventory purchase and subsequent resale.
- *iBuyer* algorithm-based and accounting improvement will overcome start-up market transactional losses. The deployment and use of new capital, obviously slowed for the purpose of balancing *iBuyer* “buy-sell portfolios”, will accelerate as the world’s largest pandemic/health crises in history eases.
- *iBuyer’s* plans to promote their title insurance alliance, as one method to increase "engagement" with retail buyer and re-seller customers, is an obvious step toward the status quo of an antiquated, overpriced and often unnecessary title insurance product at the expense of the customer originally attracted to the *iBuyer* for the new, innovative and disruptive nature of the business model.
- The concept of one-stop shopping to capture all revenue sources associated with a Purchase & Sale Agreement is not new. However, the idea of combining a tech-driven business model with non-tech products and services is a strategic mistake
- What is new is that tech companies, utilizing a creative algorithm-driven business model, is that they would risk their reputation, brand equity and customer loyalty by doubling down with the non-tech monopolistic title insurance industry, deemed untrustworthy by virtually all consumers who have historically been forced to purchase title insurance at significant expense, for the sole benefit of a lender.
- Some *iBuyers* apparently believe (captive) title insurance relationships will increase revenue and profitability. Apparently, the expectation is that title insurance cashflow will increase *iBuyer* market cap, share price and exit valuation. The reality is that title insurance unnecessarily increases the cost of the original attraction of consumers to *iBuyers* thereby adversely affecting their market penetration.

However, it appears risky that *iBuyers* would want to forfeit their original value proposition by imitating their lender counterparts; requiring title insurance either as a substantial pass-through cost, by absorbing the costs within its fee structure, or by increasing its fee to cover the title insurance costs.

This at a time when the title insurance industry has been targeted by dozens of innovative and creative high tech firms, including well-funded blockchain technology companies, and firms providing alternative methods of transferring title, all intent on disrupting antiquated title insurance.

In other words, high tech meets non-tech, excessive labor, astounding levels of brick & mortar and bloated pricing uncorrelated to risk appears to make no sense.

As institutional investors examine PropTech partnering with the NonTech status quo, they will look closely at the benefits and metrics of "bundled" products, services, processes and affiliated "partners". They will quickly recognize risks inherent with the title insurance industry, soon to be heavily engaged in its own fight against disruption by new technology firms and alternative title transfer services.

Customers and institutional investors will discover the following:

According to the American Land & Title Association (ALTA), and primary providers of the title industry's land registry data property searches reveal that 75-80% of residential real estate reflect "clean title" and therefore do not require title insurance to transfer SFR ownership.

The title insurance industry, dominated by a monopoly of five corporate conglomerates, generated $21 Billion in revenue in 2019. Yet incredibly, title insurers honored claims of only 3-5%. The gross profit margin of 95-97% is spent in supporting the title industry's outrageous executive compensation and outdated business model, unchanged in 100 years.

The title insurance industry status quo is facing significant disruption, reflected by:

- Pricing that is not correlated to risk
- Excessive brick & mortar...20,000 offices in 3,100 counties
- High direct labor costs...150,000 employees
- 80% commissions paid to title agents
- Federal (RESPA) laws enacted to stop bribery and kickbacks
- Controlled Business Agreements (CBAs) designed to protect the title monopoly
- Lack of consumer choice
- Excessive consumer costs
- 90% of foreclosures of homeowners facing temporary job loss, illness and/or divorce are executed by title insurance companies. These are the same homeowners who purchased title insurance

***iBuyers* should seek alternatives to the non-tech title insurance industry, targeted for disruption by dozens of high tech competitors, focused on actually correlating pricing to risk.**

The reputation, brand equity, customer loyalty and original successful value proposition of *iBuyers*, and their success of increasing real estate industry SFR market share, is at risk by doubling down on its questionable strategy to increase its revenue and value at the expense of the buyers and sellers of SFR real estate, for the benefit of the title insurance industry. The evidence is that only 3-5% of title insurance customers felt there was a benefit in purchasing title insurance.

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