Investors Fear Disruption to the Title Insurance Industry

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The masterful business book *"Blue Ocean Strategy"* by W. Chan Kim and Renee Mauborgne essentially sets forth strategies for delineating growth-stage companies from powerful and established competitors. In so doing, it describes the necessary strategies and tactics of designing products, services and processes that provide for successful new product development, branding, launch and marketing to capture, expand and defend market share.

These strategies are often accomplished by transforming…or disrupting…established market leaders employing outdated, status quo methods of maintaining their industry dominance.

The strategies set forth in *Blue Ocean Strategy* bring to mind industries such as automobile manufacturing. The Federal Trade Commission, the U. S. Environmental Agency and National Highway Safety Administration Traffic regulate for issues such as safety and pollution. But, these government regulators do not control innovative techniques and benefits of the brand marketing of features such as style, comfort, options, performance, reliability and other competitive delineating factors attractive to targeted demographic and psychographic market segments.

The automobile industry is interesting because, although it is highly regulated, government agencies do not dictate or require design, production, process, use, utility, quality, delivery or pricing. Government agencies do not require all manufacturers to produce essentially the same product in a one-size-fits-all scheme for the same price.

The title insurance industry is significantly different. Incredibly, state insurance regulators require that all title insurance products essentially provide the same product, underwriting process, production formats, coverages, exclusions and pricing. The monopoly of five title insurance underwriters control 85% of the national market for title insurance with essentially no differences in their product or pricing. There is essentially no differentiation…*and therefore no consumer choice.*

The fact is that the title company delineation differences are generally limited to software developed for their internal use of reducing production and delivery costs, and Controlled Business Agreements with their ancillary real estate service providers, participating in "partnerships" for appraisals, inspections, credit reports, flood certifications, tax services and the like; for the benefit and protection of the title companies.

The delineation between title companies is essentially limited to minor software order-placement and delivery applications; and simple marketing brochures, brand logos and color schemes.

More importantly, the title insurance monopoly has over the years endeared itself to mortgage lenders, under the guise that the secondary market desires title insurance…based on the theory that insured loans have greater value in the secondary market than do uninsured loans.

> Notwithstanding, according to The American Land and Title Association (ALTA), the title industry's primary trade association and lobbyist, 75-80% of residential properties are of "clean title". Further, leading authorities of industry title plants, private land data firms and public land registry systems, confirm that 75-80% of residential real estate transactions do not need title insurance for correction of minor or non-existent title problems.
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> The result is that there is no correlation within the monopoly of title insurance of risk-versus-pricing. It is on-size-fits-all. The consumer, with virtually no choice, purchases for the lender an insurance policy that provides virtually no benefit.

Incredibly, the United States Congress found it essential to create legislation known as the Real Estate Settlement & Procedures Act (RESPA) in an attempt to harness the title industry's common practices of illegal kickbacks and bribery prevalent between title insurance companies and their real estate “partners” including vendors, agents, realtors and lenders.

RESPA is currently supervised by the Consumer Financial Protection Bureau (CFPB), the result of action by the Dodd-Frank Wall Street Reform and Consumer Protection legislation.

The title insurance industry, dominated by a monopoly of five corporate conglomerates, generated $21 Billion in revenue in 2019. Yet incredibly, title insurers experienced claims in only 3-5% of transactions. The high gross profit margin of 92-95% is spent in supporting an outdated business model, unchanged in 60 years. The high gross profit margin is spent in supporting an outdated business model, unchanged in 60 years.

According to research firm iBiSWorld, 5,300 title companies and their underwriting/marketing agencies, employ more than 100,000 individuals in more than 10,000 offices, located in 3,100 counties throughout the country. Agents, playing a significant role in this brick & mortar and labor-intensive industry, earn on average 80% of the consumer's paid premiums as a commission.

As a result. the title insurance industry status quo is facing significant disruption because of:

- Excessive brick & mortar
- High direct labor costs
- Generic and common technology
- Pricing that is not correlated to risk
- 80% commissions paid to agents
- State and Federal (RESPA) legal action against bribery and kickback
- Controlled Business Agreements (CBAs) protecting monopolization
- Lack of consumer choice
- Excessive consumer costs

Disruption to costly, time-consuming, cumbersome and oftentimes-unnecessary title insurance is coming from a number of sources. These include:

1. Immutable smart contract enabled-blockchain technology
2. Modernized state and county-controlled land registry systems
3. Expansion of government-controlled Torrens Title Guarantees
4. Conversion of real property to a points-based system
5. The use of alternative forms of insurance
6. Innovative new methods of safely transferring title

The title industry has aggressively promoted its claimed role of protecting homeowner, buyers, sellers and lenders, generating average annual growth of 5.8% in the past five years. It should be noted that a "successful" diversification strategy" implemented by the title industry is to serve their lender clients in more than just insuring the purchasing and selling of homes.

Unbeknownst to most purchasers of title insurance, the diversification strategy developed by the title industry, as a tremendous low-cost profit center, are Foreclosure Services...performed against the homeowners that paid for their Lender and Owner title insurance policies.

Mortgage payment difficulties due to lost jobs, health problems, divorce, business failure or domestic pandemics do not matter to diversified monopolies when it comes time to foreclose and evict a former customer.

According to the research and data firm RealtyTrac, during the 2008 Financial Recession, title companies foreclosed upon 861,664 homes. ATOM DataSolutions reported that in 2019 foreclosures were up 54% from the previous year, reaching one in every 1,028 home in America. Real estate publication firm

HousingWire reported that during 2019’s first six months 296,458 *“title insured homes”* were in foreclosure. Extrapolated this reaches the annualized number of 592,916.

> That’s right…the title insurance industry, cleverly created a "diversified product offering” to serve their loan origination lender clients, who require title insurance, in 90% of the foreclosures in America. Many believe this circular relationship assures that lenders can foreclose, evict, take ownership and re-sell customer properties.

Imagine the surge in foreclosures for the diversified title insurance industry as today's Coronovirus devastates the America’s economy. Some believe foreclosures of title insured homes as experienced in 2008 may double or triple the foreclosures to be suffered by American citizens in 2020 and 2021 as a result of the Coronavirus pandemic.

This is indeed an industry ripe for disruption. In other words, as confirmed by the industry’s primary trade association and title insurance company-controlled data providers, 75-80% of title insured residential properties reflect “clear” historical ownership and transfer, indicating that title insurance policies are unnecessary and do not protect buyers, sellers or lenders. Neither does the process of evicting customers. Investors beware of the coming disruption.

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