iBuyer Opendoor's IPO Likely to Suffer From ill Advised Title Insurance Strategy

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Managing Director, Integrated Growth Strategies.
Capital Markets, Private Placements, Startups, Business Plans, Marketing Strategies.

On the eve of its recently announced Initial Public Offering, Opendoor is risking its reputation, brand equity and customer loyalty with an ill-advised plan to increase its title insurance operation, a product representing an antiquated, unnecessary and overpriced business model that may be the most-ripe industry in America for disruption.

Opendoor's 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.

The simple concept of an immediate cash sale or purchase resonates with consumers and is anticipated by industry experts to represent *iBuyer* participation of 25% of SFR transactions nationwide within three years. Institutional investors are pouring billions of dollars of equity into *iBuyers*, to be deployed for SFR inventory purchase and subsequent resale.

- Opendoor's recently announced IPO is anticipated to generate $5 Billion in new capital. A subsequent announcement indicated Opendoor's intention to broaden plans to promote its title insurance business, as one method to increase "engagement" with the retail customer.

The concept of one-stop shopping to capture all revenue sources associated with a Purchase & Sale Agreement is not new.

- What is new is that a tech company, utilizing an algorithm driven business model, would risk its reputation, brand equity and customer loyalty by doubling down with the non-tech title insurance business...disliked by virtually all consumers who have historically been forced to purchase title insurance at significant expense, for the sole benefit of a lender.

Opendoor reportedly believes (captive) title insurance will increase revenue and profitability. Apparently, the expectation is that title insurance cashflow will increase market cap, the IPO share price and subscription percentage.

However, it appears risky that Opendoor 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 the antiquated title insurance. *In other words, high tech meets excessive labor, brick & mortar and pricing uncorrelated to risk appears to make no sense.*

As institutional investors examine Opendoor's IPO, they will look closely at the benefits and metrics of "bundled" products, services, processes and affiliated "partners". They will quickly recognize risks associated 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.

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 of 75-80% of residential real estate reflect "clean title" and therefore do not require title insurance to transfer title.

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 gross profit margin of 95-97% is spent in supporting the title industry's outdated business model, unchanged in 100 years. The title insurance industry status quo is facing significant disruption, reflected by:

- *Excessive brick & mortar...20,000 offices in 3,100 counties*
- *High direct labor costs...150,000 employees*
- *Pricing that is not correlated to risk*
- *80% commissions paid to title agents*

- *Federal (RESPA) laws enacted to stop bribery and kickbacks*
- *Controlled Business Agreements (CBAs) protect title monopoly*
- *Lack of consumer choice*
- *Excessive consumer costs*
- *90% of foreclosures of homeowners facing job loss, illness and/or divorce are executed by title insurance companies. These are the same homeowners who purchased title insurance*

Opendoor should seek alternatives to the non-tech title insurance industry, targeted for disruption by dozens of high tech competitors. Opendoor's reputation, brand equity, customer loyalty and original successful value proposition; and the success of its IPO is at risk by doubling down on its questionable strategy to increase its value at the expense of title insurance "customers". The evidence is that only 3-5% of title insurance customers felt there was a benefit in purchasing title insurance.

Ted Sprink is a former senior executive with Fidelity National Financial, First American Financial and Chicago Title Insurance Company. Sprink is Managing Director of advisory firm Integrated Growth Strategies, established in 2001, and founder of iTitleTransfer.com.

Sprink can be contacted at 866-494-3727 or tsprink@integrated-growth.com

www.IntegratedGrowthStrategies.com