



TITLE INSURANCE INDUSTRY TARGETED FOR DISRUPTION



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Apprehensive Investors Await the Storm

The title industry's revenues of \$21 Billion in 2019, and minimal paid claims of 3-5%, yield gross profit before G&A of a whopping 95-97%. These figures are consistent with ratios enjoyed by the title industry monopoly for more than 60 years. Such revenue and profitability are defended by the title insurance industry as necessary to sustain the bloated infrastructure to support basic functions of land record search, examination and underwriting.

According to research firm iBiSWorld 5,300 title companies and agencies 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: antiquated, monopolistic, excessively labor intensive, brick and mortar-based, stale, slow, costly, cumbersome and dominated by a handful of bureaucratic "market leaders".

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 its 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, in addition to a lack of correlation between price and risk, that is reliant on searching and examining land registry records maintained in thousands of locations in disparate paper, yellow-stickers, 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 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. It is estimated that five title insurance underwriting "family of companies" control greater than 85% of the real estate title insurance market.

Yet, The American Land Title Association (ALTA) has stated that 75% of residential transactions reflect "clear title" and therefore do not need outdated, costly, cumbersome and unnecessary title insurance to correct simple clerical errors.

The obvious problems for the title insurance monopoly are as follows:

1. Monopolistic pricing absent correlation to risk, and monopoly-protecting "Controlled Business Agreements" with builders, developers, lenders, realtors and vendors negatively impacting consumer choice and price.
2. Title Insurance provides the basic function of insuring ownership and chain of title to real property, simply searching and examining the seller's authority to transfer real estate. Yet, title insurance policies are generally recognized as the most expensive and time-consuming aspect associated with real estate transactions.
3. The conversion of real estate to "points-based assets" in which Tokens represent the intersection traditional financial products (shares of stock). Tokens in real estate assets allow owners to convert the rights of individual properties. or fractions interests thereof, into non-real estate securities which can be insured by non-real estate, less costly insurance products.
4. The expansion of the "Torrens" system of the government providing state guarantees of real estate title, thereby eliminating monopolistic, costly and unnecessary title insurance. The Torrens System is a land registry and transfer system created and maintained by a state with authority over county land registry offices, empowered to maintain the land registry system and serve as the final arbiter of land registry, transfers, interests and disputes.

As such, the state becomes a revenue generator in its own right, not a transactional tool of low-cost data available for use by the monopoly of title companies to incorporate into their excessive premiums.

5. New de-centralized Smart Contract-enabled Blockchain technology validating and converting land records into “immutable blocks of data”, thereby inexpensively eliminating risk of fraud, forgery and inaccuracies.
6. New digitized land registry systems will increase search and examination efficiencies reducing cost and risk, serving to undermine the monopolistic, long argued title insurance price-risk correlation, thereby driving down title insurance premiums.

The Title Industry in Disarray:

In response to alternatives to title insurance set forth above, many industry observers anticipate the title insurance industry doubling down on their outdated, costly, and inefficient status quo. In title insurance parlance, this is a reference to brick and mortar, excessive labor, outdated technology and the reliance on paper, yellow-stickers, folders, boxes of files, index cards, microfiche and poorly designed disparate software.

Alternatively, the title insurance industry may develop their own individually branded or collective initiatives. To do so they will have to admit to the significant cost, time, quality and efficiency advantages that reduce risk, which regulators should “reward” with substantial reductions in title insurance premiums.

The title insurance cannot justify its price-risk correlation...not with 75% of properties deemed “clean” and not in need of title insurance. Big problem. And, there is another big problem, this one a public relations nightmare:

- Remember, title companies are the same monopolies that charged consumers excessive fees related to loan origination...while obtrusively taking advantage of the Great Recession by executing hundreds of thousands of home foreclosures under the guise of "diversification".
- This contributed to the homeless population in America increasing ten-fold...and record-breaking revenue and profits for the title insurance companies.

At the same time, the title industry was building and occupying spectacular home office HQ skyscrapers and campuses, that represented little more than self-congratulatory Ivory Tower memorials to themselves.

Title Insurance Runs Out of Purpose Value and Options:

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 grotesquely overpaid executives, outdated and disparate land record searching, a bloated operating platform of hundreds of absurd silos designed in the 1950s and regulatory restrictions defined in RESPA in response to well publicized decades of title insurance company bribery, kickbacks, legal abuse and sham business alliances.

Many industry veterans predict that centralized, bureaucratic and self-protecting title industry Blockchain initiatives will include yet more unnecessary insurance components, in an attempt to maintain revenue and the industry’s traditional 95-97% gross profit margins as a method of protecting revenue, multiples, market share, market cap and a general title insurance practice of rejecting consumer claims.

Further, in order to protect some modicum of relevance, the industry may attempt to "repurpose" its real estate title insurance monopoly by re-defining "token insurance" as appropriate for Property & Casualty

Insurance products, or insurable as personal property defined by Article 9 of the Uniform Commercial Code.

Or, the title insurance industry may shoe-horn Errors & Omissions Insurance coverage as an enticement to land registry offices development of their own blockchain technology.

However, the real conundrum confronting the title insurance industry is that regulators and independent actuaries focus on reduced risk and costs, thereby boxing in the title industry into a corner of significant premium rate reductions, no matter what they re-name their insurance monopoly.

Inflated real estate title insurance premiums have been foisted upon American homeowners for decades. In other words, the title industry is likely to be marginalized, and its survival, based 1950s centralized infrastructure to be substantially disrupted. Institutional investors can be expected to vacate this space.

A Conundrum Comes Home to Roost:

The title insurance conundrum is, that in a shift to Torrens model, blockchain technology, digitized land registry and/or tokenization of real property and the possible development of tokenizing real estate may result in regulators forcing title companies to reduce by a large percent their pricing as the result of significantly less risk.

The obvious result of reduced price and risk are a significant reduction in premium revenue. Lenders and buyers of real estate could simply obtain land registry information directly from the county-based land registry systems. Blockchain technology firms can assist the land registry offices in digitizing and/or tokenizing their systems leading to a valuable direct point of sale, resulting in significant new state revenue.

The Title Insurance Industry Fight for Survival:

Due to reduced future title premiums, likely to be based on efficiencies of the Torrens, blockchain, digitization and tokenization, the title industry is may shift their target market to land registry offices for payment to the title company of a contracted technology set-up service and/or annual land registry operational fee.

Thus, the primary customer revenue source of the title companies shifts from the consumer and lender to the state or county municipalities providing land registry data gathering, maintenance and delivery.

The title industry conundrum is real, with a high probability of significant changes to their business model. And, the revenue and profit potential are likely to come to a close after decades of regulator-blessed price-fixing domination by the title insurance industry.

Conclusion: Status Quo to be Replaced by Technology and Innovation:

Brilliant technologists will present Blockchain Technology Land Registry Digitization and Tokenization, in collaboration with state-controlled Torrens Title opportunities, as being the solution to problems faced by consumers. Marginalizing the title insurance companies will benefit consumers.

Real estate transactions may be “blockchained”, “digitized”, “tokenized” or “Torrensed”. In any of these events, title insurance is likely to be replaced by a vastly reduced role in the business of transferring real property. The title insurance conglomerates are likely to become a glorified collection of service companies...mandated to serve those who own and control the technology, state land registry systems and the tokens.

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