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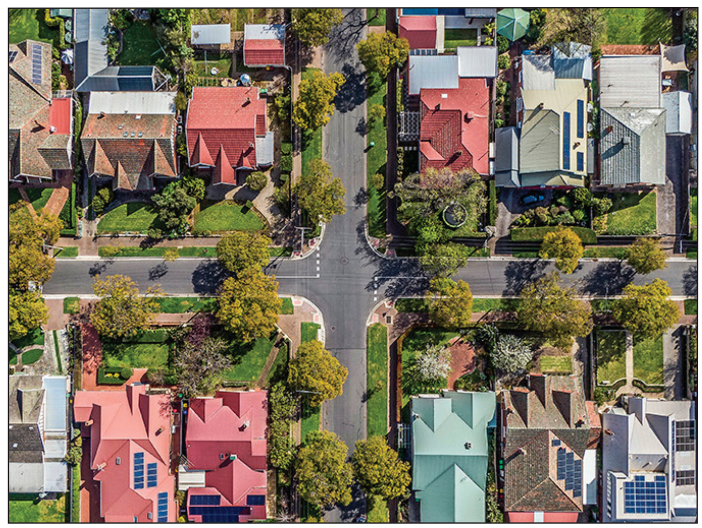
Historic Times for the Title Insurance Market

The title insurance market showed notable growth in premium volume written in recent years. That growth belies some challenges, but it also indicates opportunity.

By: Pinnacle Actuarial Resources Inc. | September 2022

Few other forms of insurance are more common but perhaps less understood than title insurance.



Every home purchase in the U.S. requires title insurance, which in its simplest form, protects lenders and buyers from financial loss due to defects or disputes over the title of a property. The owner's policy remains in effect for as long as the buyer maintains ownership. The lender's policy remains in effect as long as the property has a mortgage or until the mortgage is altered (e.g., refinance, change in mortgage lenders).

A simple example of a dispute is the removal of a neighbor's unwanted fence, discovered to be on one's own property after the close of a real estate transaction. Title insurance, however, also covers more costly (but perhaps less contentious) claims related to any number of issues including taxes or home contracting disputes.

Title insurance has been around for more than a century, since its initial inception as a result of a Pennsylvania Supreme Court ruling in 1868. But today, there's still some mystery, a little confusion and perhaps a bit misunderstanding with home purchasers about what title insurance is, when it is triggered and what it covers.

"Title insurance just isn't in many people's educational ether, often because they only need it when they buy a property. Purchasers of homes have so many other details to manage, title insurance can often seem like another detail. Purchasers sometime simply go through the closing process without questioning the title insurance line item," said Art Randolph, principal and consulting actuary at Pinnacle Actuarial Resources.

“And because title insurance is such a relatively small cost of the overall real estate transaction, most home buyers don’t examine nor shop around for title insurance. Yet, it’s important for them to know what it does and how they can use it.”

There are other characteristics of title insurance that may obscure its importance for home purchasers. For instance, unlike traditional property/casualty insurance, title insurance provides protection against past defects or disputes, rather than future events. For policyholders, that may seem less urgent than insuring against some future catastrophic or adverse event.

And because title insurance rates generally have minimum rate differentiation between carriers, that disincentivizes shopping around for the optimal insurance company. Title insurance is also a commoditized product in that the policy forms are standardized.

Finally, the insured can’t stipulate the policy’s limits: These are determined for the buyer by the property’s value and for the lender by the mortgage amount.

Taken in total and with so many variables to manage, home purchasers often see title insurance as less important than other real estate transaction items. As a result, home buyers and those refinancing are much more inclined to allow the lender to decide the title insurance company.

Continued Upward Trajectory?

Art Randolph, Principal and Consulting Actuary, Pinnacle Actuarial Resources

The title insurance market has risen exponentially in recent years, climbing 22% in 2020, according to the American Land Title Association. Historic mortgage origination activity (primarily refinances) generated $19.2 billion in written premium, up from $15.8 billion in 2019, fueled by lower mortgage rates and, speculatively, the upheaval caused by the COVID-19 pandemic. Continuation of unprecedented refinance activity in 2021 was the catalyst to another substantial premium increase of 36% to $26.2 billion.

“There’s a strong correlation between mortgage interest rates and title insurance premiums,” said Randolph. “As mortgage rates drop, incentive increases for homeowners to refinance their mortgages.

“It also brings new buyers into the market who may have previously been sidelined by the cost of homes and increasing mortgage rates. But when mortgage rates decrease, there are greater opportunities for title insurers to write refinance policies and new mortgage origination policies, resulting in a significant increase in premium.”

At the same time, the underwriting performance improves because more premium is collected from refinancing activity — more premium to cover any potential reported claims without additional risk since the prior lender's policy is replaced with a new policy.

Technology as an Enabler

One of the biggest potential enablers of title insurance is technology. Title insurance has been a fairly static market and a traditionally slower adopter of technology. But technology, as with practically every industry, can significantly reduce labor costs and increase operational efficiency. That includes title insurance by reducing the time and effort spent manually carrying out title searches by hand.

Technology can also be used to make title insurance transactions more secure and claims resolutions more seamless, with solutions to help verify the buyer's identity and resolve title defects quicker and more efficiently. This has been reflected in the number of larger national title insurers that have acquired Fintech firms to automate many of these processes.

But it's not just limited to the market leaders. Some smaller title insurers that don't have the same financial wherewithal have selectively adopted technological advancements to ensure competitiveness and profitability.

"If technology can enable insurers to better manage their capital and keep their operating expenses down, that should have a cascading effect on title insurance buyers," said Randolph. "Ultimately, it should allow the insurers to pass on the benefit to the end buyer by bringing their premiums down."

Headwinds

Conversely, there are technological risks, with the biggest risk posed by cyberattacks. Naturally, a real estate transaction requires sharing personally identifiable information. So, once a hacker accesses a policy, they can steal all of an individual's highly personal details, including their bank account and social security numbers.

Another emerging problem is insurance agency defalcations, or fraud. The agents collect the premium and issue the policy but uses the payment for their own financial gain rather than transferring it to the insurer. The effect on both the insured and the insurer can be considerable.

"Technology can be used to make the process easier and mitigate risk," said Randolph. "But, on the other side, when used to manage money through wire transfers and the like, there's always the potential for a third party to disrupt or intercept those transactions, which is when funds go missing or clients don't receive their policy."

Until 2022, inflation in the U.S. in recent years was relatively low. The years of the U.S. federal government keeping lending rates intentionally low to spur economic investment and development are apparently very much over. Inflation has reemerged, and indications are that with higher interest rates (and escalating home prices) will come fewer real estate transactions and a decreased number of transactions requiring title insurance.

Technology and economic conditions can add up to substantial headwinds. But Pinnacle, as a leader in title insurance consulting services for the last 20 years, can help title insurers face those headwinds.

Through their constant research and monitoring of the latest trends and developments in the marketplace, Pinnacle provides expert insight to its clients as well as to the industry, through Pinnacle's APEX Webinar and other thought leadership. Pinnacle sees opportunity to support the value and growth of the title insurance industry, how it works and how it's impacted by different factors.

Macroeconomic factors have always had — and will continue to have — a material impact on the title industry. Interest and mortgage rates may rise again and written premium growth may slow. Or a struggling economy may lead to more people being unable to pay their mortgages.

That may lead to a rise in title insurance claims, as had been seen during the 2008 financial crisis. And finally, as with every sector, cyber risk may be substantial.

All of this will put added pressure on title insurers' combined ratios and profitability. But title insurance's history of resilience indicates that — with technology as an enabler —it is well positioned to continue to grow and flourish.

To learn more about Pinnacle's title insurance solutions, visit https://www.pinnacleactuaries.com.

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