Title Chat

Volume 15, February 2003

Why Title Insurance? --continued

Where the Title Premium Goes

This is the third *Chat* on the topic of "Why title insurance?" In our first *Chat* we learned how much money was spent on title claims by the entire industry--$461 million in 2001. We would like to revisit that topic this month to explore how the amount of money spent on title claims relates to title premium revenue.

Many of the "critics" of our industry point to statistics that show that only a small percentage of the premium dollar received is used to pay claims. A recent report on the title industry compiled by A.M. Best with the assistance of The American Land Title Association discloses that both loss (payments) and loss adjustment expenses (costs of defense etc.) as a percentage of revenue, during the period from 1971 thought 2001, was as low as 3.64 % in one year and as high as 10.02% in another year, with the average being 6.5%.

Industry critics say, therefore, that title premiums are too high; comparing our loss experience to the loss experience of other insurance industries, such as auto or other forms of casualty insurance where is it known that losses will be incurred; and their "underwriting" is based upon past loss experience and personal history of the applicant, which can be verified by quick computer research.

In contrast, title insurers and their agents practice "loss prevention" through the search and examination process on each file in an effort to avoid claims that would certainly occur if a complete search and examination were not performed. It should also be noted that each title might involve different types of examination. One may involve a probate case; another a bankruptcy; another a mortgage foreclosure. This requires people to search and examine title as well as to close the transactions, which involves more man hours per transaction (and therefore a higher cost of producing the final product) than is involved in producing other forms of insurance.

Titles are searched differently depending on the county the land is located in. There are 67 counties in Florida. There are over 3,050 counties in the United States--not including some 40 independent cities in Virginia and something called independent censes areas in Alaska and Massachusetts. In some, the courthouse has records that can be safely searched. In most counties, especially those with large populations, courthouse searching is cumbersome and difficult. There private title plants have been created over the years to ensure accuracy but have proved to be expensive to maintain, especially in current times when many plants either have been or are being converted to computer based operations. Sometimes title plants are jointly owned by title insurance underwriters and/ or title insurance agents as a way to control each party's costs. Some people say that when public records can be accessed through the Internet, title plants will not be necessary and these costs will disappear. It is doubtful that this will happen in the near future to any large degree because of questions about the accuracy of courthouse postings. Title people prefer to search by legal description rather than by name, which (searching by name) seems to be the manner of searching thought the Internet. Only time will tell how well Internet searching will work.

If the industry attempted to reduce its expenses in search and examination by searching the Internet, and its results proved to be inaccurate, while some search expense may be reduced, claim expenses may increase.

In conclusion on this point, the issuance of title insurance has always been a labor intensive business, which history reflects has proven to work well as shown in the low ratio of claims to revenue.

Next month we will "Chat" on other examples of cases benefiting persons who purchased title insurance.

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