

Overview of Title Insurance

Title Insurance Definitions

Real Property – That which consists of land, and of all rights and profits arising from and annexed to land, of a permanent, immovable nature, also known as “real estate”.

Title – The sum total of legally recognized rights to the possession and ownership of real property. The aggregate evidence that gives rise to a legal right of possession or control.

In real property, title is determined by a deed, judgment of distribution from an estate or other appropriate document recorded in the public records of the county.

Title Insurance – succinctly, “insuring the title to land.”

When United States based insurance companies began investing in mortgages and securities backed by real estate, a guaranteed title became a requirement. On March 28, 1876, Commonwealth Title wrote the first title policy. Since that time, Title insurance has evolved into \$15.7 billion dollars a year in annual premium written, with fewer than one hundred United States based Title underwriters competing in the marketplace.

Title Underwriter – an issuer of Title insurance policies.

Performance of the Title Insurance Industry

Since the 1990’s, the total premium written in the industry has increased substantially from less than \$6 billion to almost \$15.7 billion in 2003, the industry’s record year. 2004 recorded similar figures, but revealed the initial downward trend associated with the highly cyclical nature of the industry.

Title Underwriter Performance

The Title insurance industry is composed of fewer than one hundred Title underwriters nationally.

Company	Stock Symbol	2003	2002	2001	2000	1999
		Total Operating Income (in Millions)				
First American Title Ins. Co.	FAF	\$ 3,355	\$ 2,551	\$ 1,889	\$ 1,486	\$ 1,526
Chicago Title Ins. Co.	FNF	\$ 2,514	\$ 1,827	\$ 1,404	\$ 1,146	\$ 1,283
Stewart Title Guaranty Co.	STC	\$ 1,599	\$ 1,274	\$ 891	\$ 666	\$ 761
Lawyers Title Ins. Corp.	LFG	\$ 1,371	\$ 1,056	\$ 863	\$ 725	\$ 803
Commonwealth Land Title Ins. Co.	LFG	\$ 1,223	\$ 938	\$ 765	\$ 660	\$ 782
Fidelity National Title Ins. Co.	FNF	\$ 968	\$ 741	\$ 557	\$ 434	\$ 490
Old Republic National Title Ins. Co.	ORI	\$ 932	\$ 684	\$ 512	\$ 410	\$ 479
Fidelity National Title Ins. Co. of NY	FNF	\$ 793	\$ 616	\$ 433	\$ 341	\$ 369
Ticor Title Ins. Co.	FNF	\$ 404	\$ 321	\$ 240	\$ 227	\$ 267
Attorney’s Title Ins. Fund, Inc. (FL)	--	\$ 398	\$ 312	\$ 240	\$ 221	\$ 230
<i>All Other Underwriters</i>		\$ 2,915	\$ 2,297	\$ 1,905	\$ 1,463	\$ 1,639
Industry Total		\$ 16,472	\$ 12,617	\$ 9,699	\$ 7,779	\$ 8,629
Market Share		2003	2002	2001	2000	1999
% of Market - Top 10 Underwriters		82.3%	81.8%	80.4%	81.2%	81.0%
% of Market - All Other Underwriters		17.7%	18.2%	19.6%	18.8%	19.0%
Loss Ratio		2003	2002	2001	2000	1999
Loss Ratio - Top 10 Underwriters		4.1%	4.1%	4.9%	5.3%	4.3%
Loss Ratio - Industry Aggregate		4.0%	4.6%	4.8%	5.5%	4.2%

Title Insurance’s Critical Role in the US Economy

Title insurance plays a critical role in the United States economy. By insuring the transfer of real property titles, Title insurance enables the real estate and secondary mortgage markets to function efficiently. Expectations for perfect and complete title records are unrealistic and transactions and market liquidity would not be possible without addressing exposure to unknown rights or liens on real property. Title insurance facilitates these real property transactions, and this large segment of the nation’s economy, by cost-effectively insuring against the risk of unknown property title defects.

Major Influences within the Title Insurance Industry

Although lenders require Title insurance, the performance of the Title insurance industry is highly impacted by interest rates and their derived mortgage rates. The industry booms when rates are low and faces challenges when rates are high.

Title underwriters heavily utilize Title agents. This relationship allows the performance of localized title searches and for nationwide distribution of services.

Title underwriters are limited in most states to monoline coverage.

Unique Features of Title Insurance

Title insurance is often contrasted with other forms of insurance. However, the types of risks are different.

1. The full premium for Title insurance is collected immediately. The majority of the premium covers investigation of possible title defects and challenges. Across the industry, losses incurred typically ranged from 3 to 8 percent of total operating income.
2. Title insurance involves the indemnification of losses from *past* events, opposed to traditional forms of casualty insurance, which protect against *future* loss events.
3. Title insurance contracts are not cancelable by either party. Each transfer of real property requires a new policy.
4. Title insurance has no expiration date. The coverage is effective indefinitely and the policy contains no limitation as to when a claim can occur following a loss.

Demotech Research and Publications

Demotech publishes *Demotech Performance of Title Insurance Companies*, providing an annual, in-depth analysis of trends and performance of the Title insurance industry. This publication presents statutory financial information representing virtually all of the industry’s underwriters and Direct Premiums Written. This industry resource is supported by ancillary *Quarterly Update*, industry snapshots, produced three times throughout the year.

In 2003, Demotech published a special study, “*Defalcations: Today’s Challenge in Title Insurance and Our Thoughts on Addressing this Challenge*,” covering one of the largest risk exposures in the Title insurance industry.

About Demotech, Inc.

Since 1985, Demotech, Inc., a Columbus, Ohio based financial analysis and actuarial services firm, has been providing a wide range of services including pricing analysis, state filings assistance, Financial Stability Ratings® and support for other required regulatory reporting. Demotech was the first rating service to have its rating process formally reviewed and accepted by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the United States Department of Housing and Urban Development (HUD).

In 1992, Demotech became the first company to review the financial stability of the Title insurance industry and publish an independent opinion of underwriters’ financial stability. Since 1992, Demotech has presented Financial Stability Ratings® for virtually all Title underwriters. No other organization reviews more underwriters or has been providing Financial Stability Ratings® longer.

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