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Title Insurance Production Benchmark Study

Key insights on true title origination costs and what title companies can do about them

High performance. Delivered.

Large title insurance companies and agents have long enjoyed lucrative years, handling thousands of transactions each month. Today's proliferating digital technologies, tougher regulations, emerging new entrants and market shifts in origination volumes are putting downward pressure on margins. Corporate boards and operating committees share a main objective to cut costs with minimal impact to their people and businesses.

As companies continue to try to reduce costs, one question remains: what does it truly cost title insurers to originate a title? Most industry participants do not know their company's actual costs or expense mix—a reality that makes it difficult to find ways to lower expenses and grow margins.

To identify the costs of title production, real property title information provider RedVision retained Accenture to conduct an independent, quantitative benchmark analysis of the title production process and associated costs among several industry-leading providers. The study focused on tasks performed in the title origination process (pre-search, search and examination), measurement of task time and value-add procedures while also taking into account fixed and variable company costs.

This paper highlights the key findings, identifies how industry players can shift their focus to become lean operators and recommends near-term opportunities to maximize cost efficiency and effectiveness.

The actual fully burdened refinance title origination cost in the benchmark study was 30 percent greater than participants' cost estimate associated with refinance products.

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Convergent disruption is compelling lenders and title companies to take action

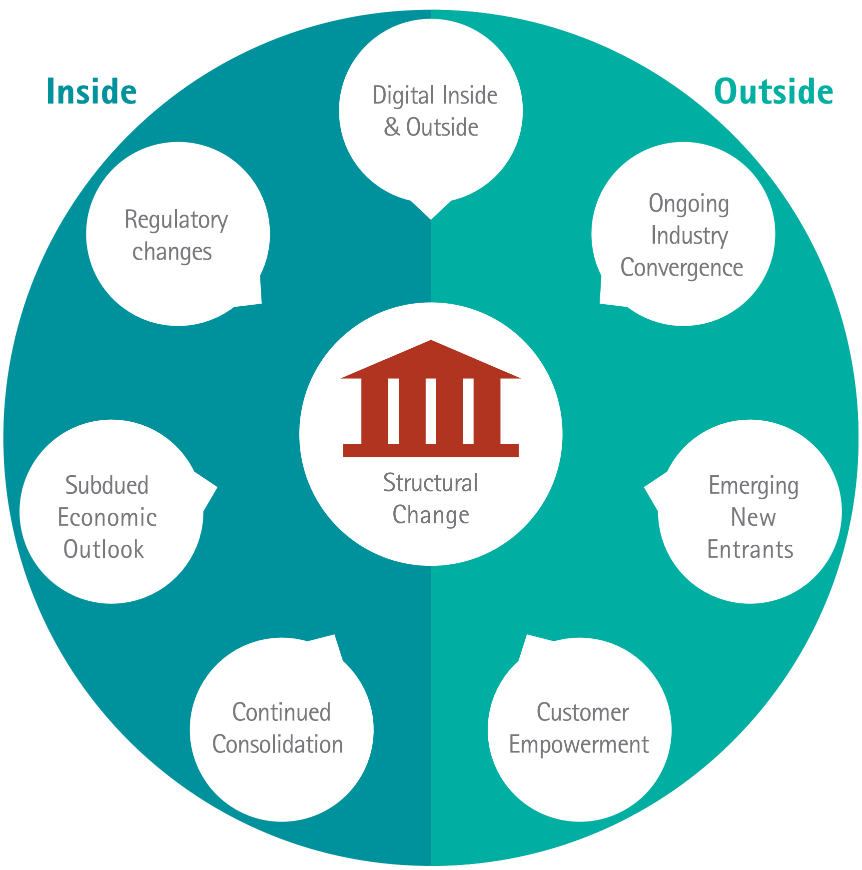
Multiple disruptive forces—from new consumer empowerment and compliance regulations to stronger competitors and game-redefining digital technologies—are converging simultaneously on title insurers (Figure 1). These forces are creating structural changes and disruption in the title industry, including:

- **Digital operations.** Both internal functions and processes and external digital experiences are rapidly redefining interactions, such as information flows and data transparency, between customers and suppliers.
- **Industry convergence and innovation.** These forces are linking banks, lenders and title companies while opening doors to new ways of doing business and generating revenue.
- **Innovative new entrants.** Emerging players are competing for customers and profitably serving traditionally unprofitable segments. By 2020, more than 20 percent of the origination market will shift to new entrants.[1]
- **A subdued economy.** The Mortgage Bankers Association forecasts a subdued economy over the next three years.[2]
- **Extensive regulatory compliance costs.** Lenders and title companies are spending in excess of $1 billion[3] configuring software systems to address the latest regulations.

To remain competitive in this emerging market, lenders and title companies must effectively manage risk, improve efficiencies, enhance technology and innovate. The level of process and cost efficiency will determine the depth of success in each of these aims.

Industry leaders are in a strong position to respond to market drivers and take action in ways that improve both process and efficiency. For example, standardizing integrated business processes and procedures—from consistent order receipt to product delivery—supports continuous process and quality improvement controls.

FIGURE 1: Multiple disruptive forces are converging on title insurers—both from inside and outside the industry



Source: Accenture

Title Insurance Production Benchmark Study: Key findings

Based on the quantitative data from the benchmark, two key findings offer title insurance companies some surprising and directional indicators for further analysis.

KEY FINDING #1: The title fulfillment process still runs heavily on disparate systems with several human touch points and multiple quality checks.

There is minimal consistency in the approach to assessing, measuring and reporting KPIs across the lifecycle of a title transaction. The lack of standards and consistency in this case often leads to manual and redundant steps, further draining efficiency within the process.

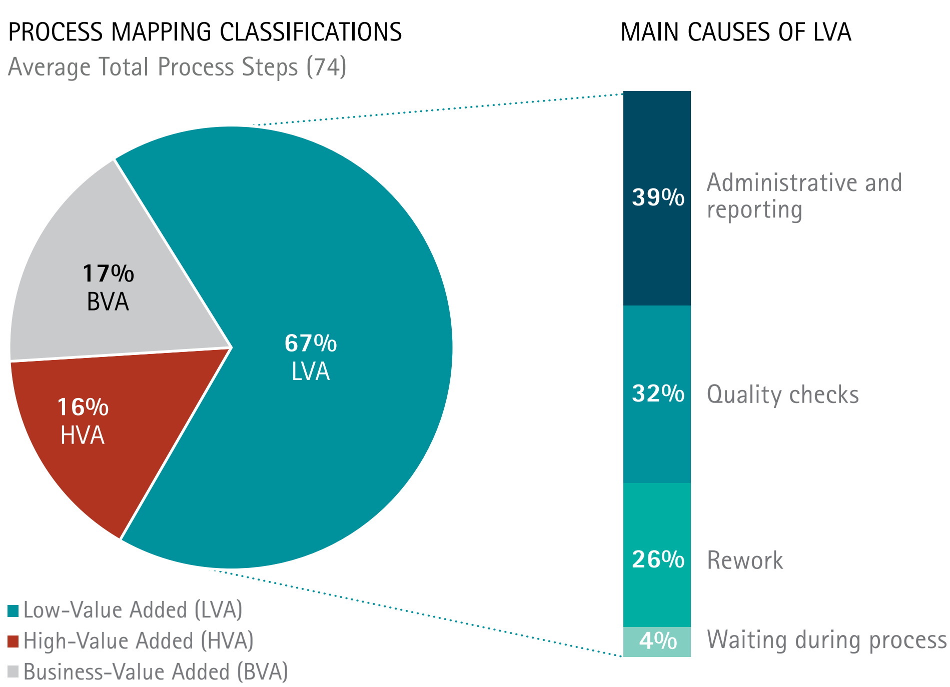
Although it is the era of digital and technology innovation, title production processes continue to cling to traits that drain value chain efficiencies:

- **Process efficiency challenges.** Moderate levels of automation and duplication of processing exist within title origination functions with an average of 67 percent of all processes considered as low-value activities (Figure 2).
- **High number of handoffs.** An average of 8.5 handoffs occur across the title production process for refinance and purchase products.
- **Limited straight through processing.** More than 80 to 90 percent of title search process steps are conducted manually or require manual intervention creating excessive delays.
- **High levels of rework.** Manual rework across the entire title production value chain impacts process efficiency and the cost-per-transaction. Multiple corrections, validation and quality assurance checks exist during the exam and curative process steps.
- **Lack of differentiation by segment.** There is little to no distinction in processing service level agreements (SLAs) for different products or customer segments which often leads to misallocated resource spend.
- **Data validation.** Inconsistent notification of mandatory systems data fields, contributes to increased cost of rework.
- **Complex, disparate technology.** Six to nine complex systems or applications, on average, are used to help generate a title commitment with limited integration of workflow tools, which inhibits the ability to maximize staff utilization.
- **Limited key performance metrics.** There is a limited view of end-to-end key performance indicators (KPIs), particularly regarding customers, processes and staff.

At a glance—Title Insurance Production Benchmark Study

- Quantitative assessment of industry-leading title providers
- Structured around two work streams: title process (pre-search, search and exam) and cost analysis, based on volume and cost data analyzed in fiscal year 2014
- Limited product scope of aggregated cost analysis to standard refinance title insurance product (in most cases, a short form policy)

FIGURE 2: Low-value activities (LVA) comprise the bulk of all title production processes



Source: Accenture-RedVision Title Insurance Production Benchmark Study, 2014

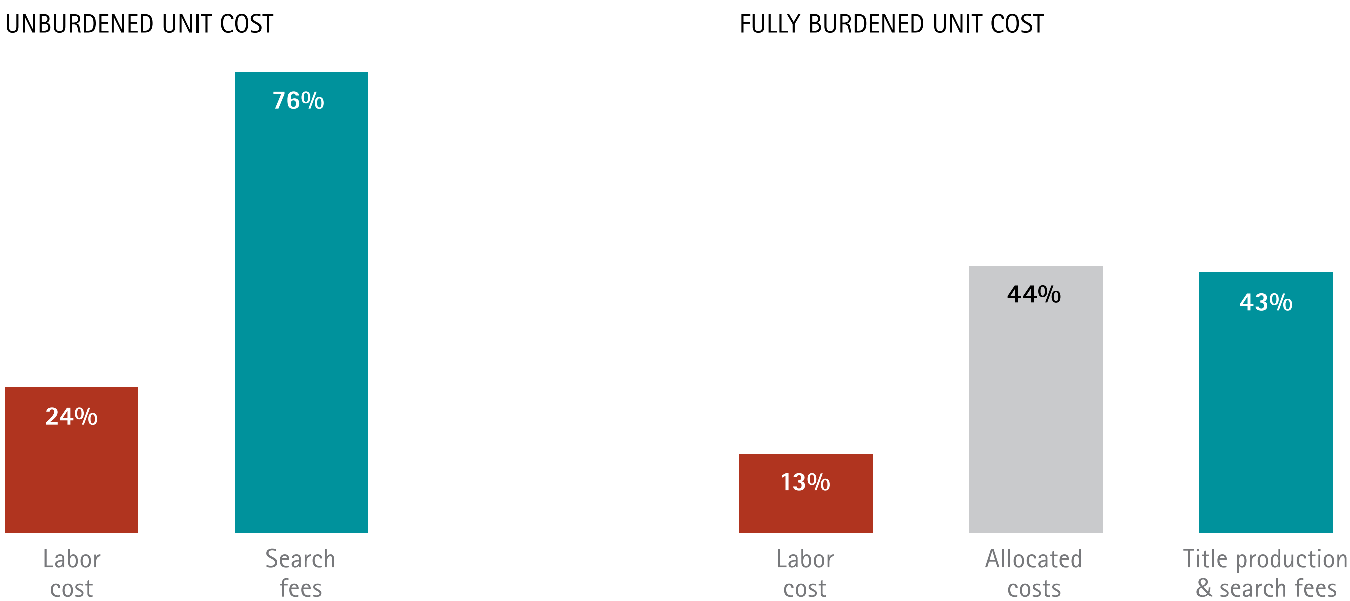
KEY FINDING #2:
A 30 percent variance exists between what participants thought was their cost to produce and their actual fully burdened costs in producing a title report.

Not surprisingly, the study subjects used a variety of business models, operating processes, accounting structures, allocation methodologies and cost hierarchies—all of which have evolved through rapid growth and merger activity.

The rapid growth has led to complexity and non-value activities throughout the title production value chain, resulting in a wide range of unburdened and fully burdened costs. Additionally, disparate approaches toward cost accounting and allocation make it difficult to assess the true cost to originate title commitments for refinances.

Still, the actual fully burdened refinance title origination cost in the benchmark study was 30 percent greater than participants' cost estimate associated with refinance products. Origination costs for purchases are likely to be even higher.

FIGURE 3: Title insurance origination actual costs



Opportunities for more efficient and effective originations

Where can title companies and their clients start to gain cost efficiencies and improve process effectiveness? The study revealed near-term improvement opportunities across interconnected technologies, processes and costs including deploying technology innovations and applying process improvements for efficiency resulting in the ultimate goal of overall cost reductions.

Technology innovation—high automation, rational and modular systems—can help reduce errors and increase productivity by eliminating data correction at order entry, speeding cycle time and decreasing manual tasks:

- Adopt standard incoming abstract data through integration with national providers, with upfront and automated verification and validation at order entry, such as MLS.
- Use workflow automation for assignment of tasks to complete them in parallel and better deploy all production resources.
- Automate invoice generation and distribution processes as well as payment check issuance process for tax certifications.
- Improve real-time updates and information transfer between title production systems and downstream loan origination systems.
- Incorporate customer self service.
- Leverage optical character recognition (OCR) technology to speed the document ingestion and data validation process.

Process innovation—simple, flexible and standard processes—can collectively mean more efficiencies that help minimize or even eliminate time spent on data entry, examiner validation and re-verification, corrections and manual commitment document handling as well as the number of items needing curative input:

- Deploy a title production platform that uses business rules and criteria for automatic assignment to production staff and vendors.
- Develop bi-directional interfaces with volume clients to eliminate the need for examiner summary emails.
- Enhance web portal and order entry channels to include mandatory fields needed to begin the process.
- Enable comprehensive metric capture to support effective management and continuous improvement.

Cost innovation—segmentation, business model design and delivery sourcing—drives efficiencies in completing the title production process:

- Differentiate service levels by customer value and complexity.
- Identify and transition to delivery models that allows for maximum efficiencies and associated productivities.
- Accommodate pricing structures tailored to client needs.
- Find a balance with third parties to further improve agility and efficiency.

Conclusion: Act boldly

The future for the title industry is shaping up to be increasingly complex and highly dynamic with "permanent volatility." Process effectiveness and cost efficiency plays a vital role in the title industry players' ability to successfully compete in this new future. Title companies need to take bolder actions to address cost pressures and improve their ability to:

- React faster to market changes—even quick time to market in today's fast-paced environment is not quick enough.
- Find the appropriate balance between fixed and variable expenses to best manage costs.
- Differentiate the customer service experience rather than spend resources on non-value add processes that only extend cycle times and increase overall title production expense.

While quantitative findings from benchmarking contribute value to setting improvement targets, a qualitative assessment is also necessary for title companies to understand any performance gaps and define individualized roadmaps for organizations to make bold performance improvements.

Notes

[1] Mortgage Lending Shaped by the Customer—Accenture's 2015 North America Consumer Digital Banking Survey https://www.accenture.com/us-en/insight-consumer-banking-survey-lenders.aspx

[2] Mortgage Bankers Association—April 2014: www.mbaa.org

[3] Mortgage Bankers Association—April 2014: www.mbaa.org

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