

From: Joseph Petrelli [mailto:JPetrelli@demotech.com]
Sent: Wednesday, October 22, 2008 3:00 PM
To: Humpert, Samuel J
Cc: Bieniek, Joe
Subject: RE: Annual Revenue and Expense Data for AGENTS and Underwriters
Importance: High

Gentlemen,

I am responding to Samuel's alert regarding the NAIC efforts. The role of the title insurance agent in the review, analysis and policy issuance of coverage is like nothing the P&C or L&H industry has seen. It is even beyond the MGA business model. That being the said, the need for allocating loss adjustment expenses (ULAE and ALAE) is central to the measurement of profitability, competitiveness and reasonableness of title rates and charges. I am attaching a study and a white paper on the issues associated with Title underwriters using a P&C format for financial reporting. Feel free to forward these to other interested parties.

In addition to structural differences between the industries, be careful of the words 'commercial' and 'residential'. In P&C, they have one meaning. In Title, commercial tends to mean 'larger residences' as well as truly commercial real estate. A \$5 million house in Greenwich might be considered commercial in the title insurance industry but it is a private, consumer residence. However, a \$500,000 beer and wine drive through in Pawtucket would be commercial Title insurance.

Statistical information in a detail to be utilized to measure profitability, competitiveness and reasonableness will be difficult to obtain from agents. They are not risk-bearers and do not capture information in a uniform format like Title underwriters must do. However, a reasonable incremental effort might involve utilizing information on HUD-1s. it is a standardized countrywide form that every Title insurance agent is familiar with and must complete. A copy of a HUD-1 is attached. Similarly, the Title industry enumerates the incidents it has cured (claims in P&C parlance) and presents the major ones in Schedule B of the Title policy. A schedule B is at the end of the HUD-1.

I would be pleased to volunteer to work with the TIWG or otherwise participate. If nothing else, I can be a translator between Title and PC.

Let me know if hard copy is requested and if so, where to send it.

Thank you.

Joe
Joseph Petrelli
President
(800) 354-7207 - Toll Free
(614) 526-2160 - Direct Line
(614) 526-2161 - FAX

From: Humpert, Samuel J [mailto:Samuel.Humpert@dora.state.co.us]
Sent: Monday, October 20, 2008 12:15 PM
To: Joseph Petrelli
Subject: Annual Revenue and Expense Data for AGENTS and Underwriters

Joe,

First of all, thanks for sending me the 2008 Performance guide and the quarterly reports for this year. I enjoyed the opportunity to discuss the challenges of identifying and accounting for risk related costs of loss avoidance in title insurance. The problem, of course, is the source of this data must come from the title insurance agents who are doing all the heavy lifting of loss avoidance.

A new development from the Title Working Group in NAIC may provide a mechanism to identify and quantify LAE and ULAE at the title agent level. Below is the basic text of the message I received from NAIC:

The Title Insurance Working Group seeks to develop a nationwide statistical plan for capturing state-specific annual revenue and expense data from title insurance agents and underwriters for the purpose of measuring the profitability, competitiveness and reasonableness of title rates and charges. The Working Group solicits responses from all interested parties regarding the specific content of such a statistical plan as well as appropriate and effective methods for collecting, auditing, compiling and using the plan's data.

Please submit your responses to Joe Bieniek at jbieniek@naic.org by November 7, 2008. The Chair will share these responses with the Working Group at an interim conference call to be scheduled for later in November.

We wish to thank all parties in advance for their cooperation in this important data collection effort.

Needless to say, I'm participating in this process. I'm going to work on some data points to identify LAE, ULAE, reasonable business overhead and administrative cost areas as well as means of measuring reasonable rate of return.

I believe your input could be very valuable to this process and would invite you to submit your ideas either to me or directly to Joe Bieniek.

Samuel Humpert, M.B.A., J.D.
Title Ins. Market Conduct Examiner

Colorado Department of
Regulatory Agencies
Division of Insurance
Market Regulation
1560 Broadway, Suite 850
Denver, CO 80202
P 303.894.2417 | F 303.894.7455
www.dora.state.co.us

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