



Demotech, Inc.

November 1, 2010

NAIC Title Statistical Plan Working Group
Ms. Paula Sisneros, Chair
c/o Colorado Division of Insurance
1560 Broadway, Suite 850
Denver, CO 80202

Dear Ms. Sisneros,

Given the critical importance of this Working Group's efforts, I am communicating my thoughts on the title agent statistical plan that has been approved by the Working Group. It is my observation that the plan, as approved, is a financial reporting plan, not a statistical reporting plan. Although the members of the Working Group are familiar with Title insurance, others reviewing the current plan or receiving financial information gathered under the current plan, might not have the background or experience to 'gather a better understanding of what's happening at the agent level' unless they also received insight on the quantity of matters identified, resolved or analyzed prior to the issuance of a Title insurance policy.

In other words, despite the expertise and experience on the Working Group, those outside of the Working Group need additional perspective of what's happening at the agent level. Without perspective on the daily activities and core competencies of Title insurance professionals, there may be a tendency to assume that the activities in a Title insurance agency, or Title underwriter direct operation, are comparable to the activities in a P&C, life or health insurance agency.

Although these paragraphs summarize my perspective, I provide the Working Group with additional background information on how I arrived at my opinion.

Financial Reporting versus Statistical Reporting

Statistical data typically consists of exposure, premium and loss information. Statistical data can be utilized to evaluate rate revisions at the classification level and otherwise facilitate actuarial analysis. The plan, as currently approved, cannot accomplish these objectives. The two major impediments are the lack of exposure data and other information consistent with what is happening at the agent level.

1. Lack of Exposure Information

The plan does not compile information on exposure. In the Title insurance industry, the exposure base is \$1,000 of amount of insurance. Without exposure data, information collected under the plan will be unable to evaluate the difference in premium and exposure levels in, say, Decatur, Illinois, with a median sales price of existing single-family homes of \$86,700 versus, say, the San Jose-Sunnyvale-Santa Clara area, where the comparable median sales price is \$530,000.

2. The coverage provided by a Title insurance policy is retrospective. Risk of loss related to the marketability of the title to real property exists when the title to real property is transferred, i.e., prior to policy issuance. Accordingly, matters must be identified and mitigated prior to the transfer of the title and prior to the issuance of the policy. If the insured has a problem associated with the marketability of title, an incident that existed as of or prior to the date of policy may be covered but incidents arising subsequent to the effective date are not covered.

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Although the plan is not a statistical plan, the plan meets the traditional standard of a financial reporting plan in that it collects aggregated financial information that can be utilized to evaluate an agent's financial performance.

What is Happening at the Agent Level

The goal at the agent level, as well as the direct operations level, is a zero loss and loss adjustment expense ratio. The goal is to verify information as presented, find or fix impediments that may adversely impact the marketability of title. Accordingly, unless the count of the number of matters verified, found or fixed on a particular policy are measured and captured with the one-time premium associated with the policy, the plan will be unable to provide a better understanding of what is happening at the agent level.

In sum, it is in the interest of consumers and regulators to understand that the goal of practitioners in the Title insurance industry is to verify, find or fix impediments to the marketability of title prior to the issuance of a policy. A title insurance policy is a consumer's protection because the title that the consumer received is marketable. This made possible by the significant effort that was expended prior to policy issuance. In stark contrast to property and casualty or life and health insurance, losses, the residual matters resolved subsequent to policy issuance, are not indicative of the time, effort and expense associated with the issuance of the insured's single premium policy.

I respectfully submit that the plan approved by the Title Statistical Plan Working Group may not capture all of the information that would be valuable to the regulation of Title insurance rates from an actuarial perspective nor provide an understanding of 'what's happening at the agent level' until it captures exposure data as well as a count of the impediments to marketable title identified, found or analyzed prior to the issuance of a commitment or policy.

Thank you for your kind time and attention.

Sincerely,

Joseph L. Petrelli
President

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