

TitlePLUS policy numbers, claims costs grow

The widespread use of title insurance in real estate transactions not only means that more consumers benefit from the protection that title insurance provides, but also that title insurers are receiving – and paying out – more claims. The TitlePLUS program is no exception.

As the number of TitlePLUS policyholders grows by the thousands year over year, more claims are being reported, and the TitlePLUS program is consistently paying more claims and allocating funds to pay future claims.

For example, in 1999 – only two years after the TitlePLUS launch and with only 13,000 policies in force – fewer than 35 claims were reported, costing the program under \$30,000. By 2007, when hundreds of thousands more Canadians had protected their real estate transactions with TitlePLUS policies, claims paid in 2007 were in excess of \$2 million.

From a consumer (or other policyholder) perspective, that's very good news. It means that the TitlePLUS policy is doing exactly what it is intended to do: It's delivering on the protection that our insurance policy provides by compensating TitlePLUS policyholders for damages and losses they have suffered. According to survey results, it's also delivering the service policyholders expect: On average 85 per cent of respondents give us top marks for handling claims promptly, courteously and professionally, and keeping the claimants well informed.

That's not to say that we are not carefully watching the number of claims reported and their costs – trends that put pressure on TitlePLUS premium amounts.

Of particular concern is the cost of fraud to the TitlePLUS program. To date we have paid out more than \$6 million on TitlePLUS fraud claims – good news for policyholders who were quickly compensated for losses, but of concern for TitlePLUS administration. The TitlePLUS program already has the most stringent underwriting requirements of any title insurer in the Canadian marketplace. To the extent possible, TitlePLUS underwriters are trying to learn more about how these frauds were perpetrated and what can be done at the underwriting end to minimize exposure to frauds in the future.

Despite these concerns, TitlePLUS results are consistent with expectations for the program:

THE MAJORITY OF CLAIMS ARE FOR RELATIVELY MINOR MATTERS

More than 95 per cent of claims reported are minor with payments of less than \$10,000. Tax arrears, adjustment errors, and utility arrears are typical.

OUR CLAIMS RATIO REFLECTS THE ADDITIONAL COVERAGE IN A TITLEPLUS POLICY

An important measure of an insurer's performance is the claims ratio – that is how much of every dollar of premium revenue it has paid out or expects to pay out on claims.

On average, over the history of the TitlePLUS program, its claims ratio for paid claims stands at about 33 per cent. This means for every dollar of premium revenue it has received, it has paid out about 33 cents to policyholders who had claims that were covered under their TitlePLUS policies. TitlePLUS actuaries predict that its average ultimate claims ratio will be in the 55 per cent range when one factors in costs of claims that may yet be received in the future on account of policies already sold.

So, it can take many years to say definitively how a given year of policy sales worked out. Our conservative, prudent approach to reserving ensures the program can absorb anticipated increases in claims costs

The TitlePLUS projected ultimate claims ratio of about 55 per cent is, we believe, consistent with that of its competitors, when you remember that the TitlePLUS policy also includes legal service coverage. Other insurers selling more traditional title insurance often report ratios to the regulator ranging between 20 and 40 per cent (or more in isolated cases), depending on the year and the title insurer. But 12 per cent of the claims in the TitlePLUS program fall into the legal service coverage, thus driving its claims ratio higher than that of a typical title insurance program.

TITLEPLUS RESERVES ENABLE US TO WEATHER INCREASING CLAIMS PAYMENTS

In 2008, the amounts set aside to resolve TitlePLUS claims exceeded 2008 premium revenues. Results such as this are not unexpected in the business world and do not affect the long-term viability of the program.

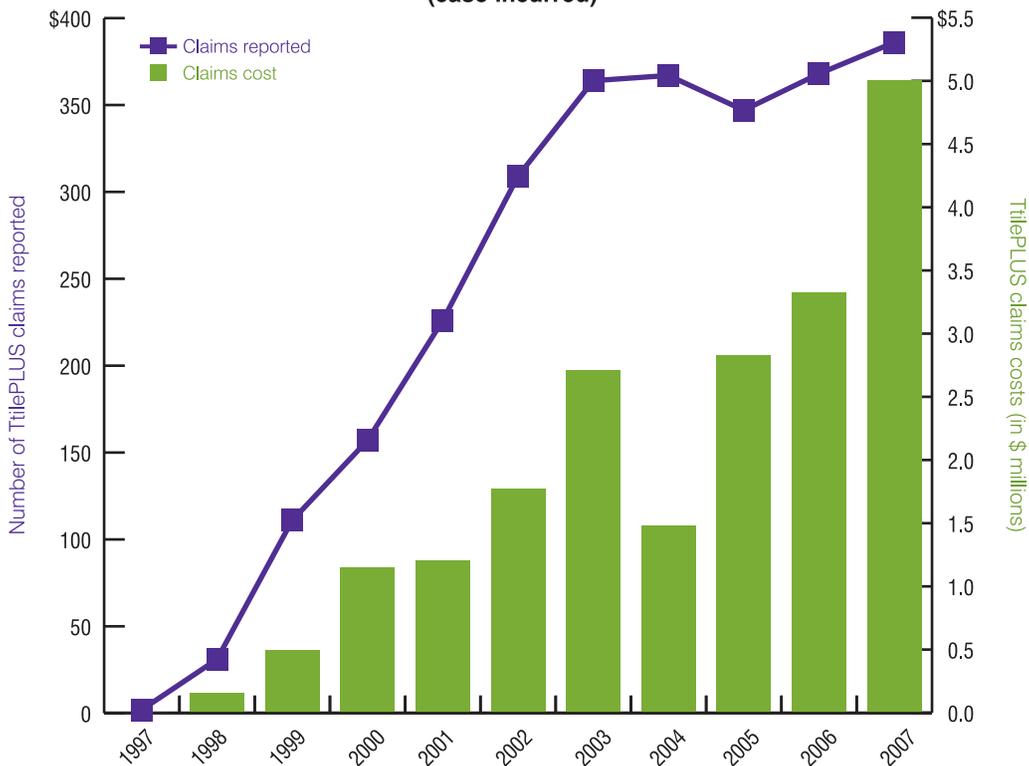
There is an element of volatility and unpredictability to any business – including title insurance. That is why it is important to look at any business results over time, rather than look at a single year in isolation.

Each year actuaries look at both the anticipated claims costs for the policies sold in the current year, and back to earlier years and then decide whether more money should be set aside for claims which may arise from those earlier years. That is what happened in 2008. But comparing money set aside for claims on policies sold over a number of years to only the premium collected

in one year tells us little: Because actuarial adjustments are being made after the fact covering many prior years on the claims side of the equation, it's important to also factor in the premium collected in those earlier years. When we include the seemingly high actuarial adjustments made in 2008, the projected ultimate claims cost is still only about 55 per cent of all TitlePLUS premiums collected over the years.

In other words, prudent and conservative reserving by our financial team ensures that the TitlePLUS program can absorb this additional allocation to TitlePLUS projected costs.

GRAPH 9
TitlePLUS claims reported & costs
(case incurred)*



* Includes claims paid plus reserves for claims reported but not resolved, based on claim reports as of June 30, 2009.