Technology

Fintech Eyes Opportunity in $15 Billion Title-Insurance Business

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- California's approval of new title insurer a first for state
- Upstarts work in other regions too, facing web of oversight

Tech-focused startups are knocking on the door of a $15 billion industry that's dominated by just four companies: Title insurance.

A California regulator announced Tuesday that, for the first time, it gave approval to a tech-focused startup title insurer to operate in the biggest U.S. state by population. States Title Inc. joins newcomers including OneTitle National Guaranty Co. and Spruce Holdings Inc. that have gained footholds in other U.S. regions to enter the complex and closely regulated world of title insurance.

"The industry is ripe for more technology usage," said Jason Deleeuw, an analyst at Piper Jaffray & Co. "That's a common theme across real estate and mortgage."

Consumers generally use title insurance just a few times in their lives when they're financing the purchase of a home. Title companies and agents scour public records to help buyers and lenders avoid risks like liens or ownership disputes. California Insurance Commissioner Dave Jones said more competition and new technology can help reduce costs for consumers.

"Title-insurance transactions are often labor intensive and suffer from delays," Jones said in a statement. "States Title uses a digital platform which is data-driven and automates the process."

Fidelity National Financial Inc. and First American Financial Corp. are the largest title insurers, with Old Republic International Corp. and Stewart Information Services Corp. right behind, according to data from the American Land Title Association. Title insurers generated nearly $15 billion in total premiums last year, ALTA data show. Earlier this year, Fidelity National agreed to buy Stewart for $1.2 billion.

The established firms face challenges on various fronts as newcomers win approval from state regulators. OneTitle operates in New York and New Jersey. Spruce, which recently raised more than $15 million from investors including Munich Re, said this month that it's worked in 36 states.

Some startups, such as OneTitle, are issuing policies, while others including Spruce are acting as title agents. They say that the industry relies on outdated technology, and some argue that the market's driven more by complex ties between agents and insurers than by a desire to accommodate shifting consumer preferences.

Related: Hear OneTitle's Daniel Price on a Bloomberg Radio podcast

"There really had been very little technological innovation in the space," Daniel Price, co-founder and chief executive officer of OneTitle, said in an interview. "Part of the reason that relationships have been key is that there's been no differentiation."

The cozy relationships between agents and insurers came under scrutiny from New York regulators. They sought to crack down last year to stop firms from allegedly passing "marketing costs" to consumers that include expenses such as meals and entertainment used to win business. Industry groups fought back in court, winning annulment of the New York rules. The state's Department of Financial Services is appealing.

Some startups joined with existing title insurers instead of fighting the incumbents. Spruce, which was started in 2016, works with underwriters including WFG National Title and Fidelity, according to its website. It's using technology to streamline the process and attract lenders and real estate companies.

Industry Trends

“Broader trends in the industry are going to necessitate title companies be able to keep up and able to meet these mortgage originators or real estate companies where they’re trying to guide the consumer experience,” Patrick Burns, Spruce CEO and co-founder, said in a phone interview.

As they use technology to scour public records more quickly, firms like OneTitle are able to compete by charging less. Price, the CEO, said OneTitle doesn’t use title agents and can offer 25 percent lower premiums by selling directly.

Piper Jaffray’s Deleeuw said the startups might be able to make a big dent in the market -- eventually.

“I understand how startups can come in and take a lot of share, or at least start to take some share, by having a different way of going about the business,” he said. “I’m not saying that it won’t happen in title insurance, but we’re not seeing a lot of evidence of that on a national, scalable level.”