

TEXAS PUBLIC POLICY FOUNDATION

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LEGISLATOR'S GUIDE

to the issues



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FOUNDATION

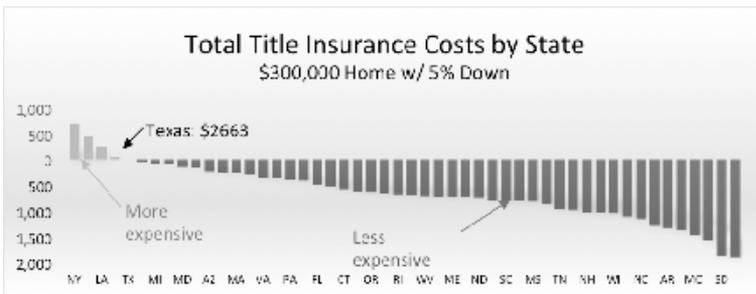
Title Insurance

The Issue

Texas has the most heavily regulated title insurance market in the country. The Texas Department of Insurance (TDI) sets the price and coverage of residential and commercial title insurance. The TDI also promulgates the division of premiums between title companies and agents. As a result, competition is eliminated from the title insurance market, and costs increase for both consumers and businesses.

There is nothing unique about title insurance that warrants its exclusion from the forces of competition. In fact, just the opposite is true. Whereas competition forces companies to be customer-focused and conscious of quality, title insurance companies that are relatively insulated from competition are instead largely focused on manipulating regulations. Consumers understand this: a recent poll found that 91% of Texans agree that since they can shop around for auto and home insurance, they should be able to shop around for the best deals on title insurance.

Texas has some of the highest title insurance rates in the nation. According to a study by the LBJ School of Public Affairs (2011), Texas has the highest title insurance premium for a \$200,000 home among states that require comprehensive coverage. The Foundation's research shows that Texas has the fifth highest total title insurance cost for a \$300,000 home.



Consumers are not only burdened by high prices, they are also deprived of choice. Since the government sets coverage, many Texans must pay for things they do not want—and what they do get is often of inferior quality. So long as the government regulates their business, title insurance companies have no incentive to meet the needs of their customers.

The current regulatory system not only adds significant costs for homeowners but also for businesses engaging in real estate transactions. While high residential rates discourage homeownership in Texas, high commercial rates burden businesses and can negatively impact their relocation and expansion.

The current system is far removed from the Texas Model of low taxes and regulations, which has made Texas the nation's economic leader for the last 15 years. Texas can easily introduce competition and choice into title insurance by applying the same file-and-use system that is used for auto and home insurance. Making

title insurance consistent with the Texas Model will lead to lower rates, higher quality coverage, and more consumer choice. Additionally, it will lower the cost of business in Texas, which can lead to more jobs and a stronger economy.

The Facts

- The Texas “title insurance tax” on Texas homeowners in 2016 was between \$111.1 million and \$186.5 million, averaging \$342 to \$574 per home sale.
- Texas had the 12th highest price for title insurance among the 50 states for a policy on the average priced home (\$260,064) sold in Texas in 2016.
- Texas has the most restrictive regulation of title rates and forms (policies) in the nation. It allows no opportunity for insurers to innovate with their products or to lower rates in order to compete for consumers’ business.
- Much of the revenue from title insurance policies is wastefully spent to the benefit of the industry; on average, only 13% of the cost of a title policy on a \$260,064 home is spent benefiting consumers by reducing risk or paying claims.
- Higher prices in Texas do not benefit Texas consumers; higher prices do not make titles in Texas any safer than titles in other states.

Recommendations

- Increase competition and consumer choice in the title insurance market by adopting the same file-and-use system that is used for auto and home insurance for both rates and forms.
- Eliminate the authority of the TDI to promulgate or approve the split of premiums between title insurance companies and agents.

Resources

“[The Texas Title Insurance Market Should be Freed from Overregulation](#)” by Brooke Rollins and Bill Hammond, *TribTalk* (Feb. 12, 2016).

“[Commentary: Why Texas Needs Competition in the Title Insurance Market](#)” by Bill Hammond and Bill Peacock, *Austin American-Statesman* (March 07, 2016).

[Deregulating Title Insurance](#) by Bill Peacock, Texas Public Policy Foundation (April 2013).

[Title Insurance Regulation in Texas: Challenges and Opportunities](#), Lyndon B. Johnson School of Public Affairs (2011).