

AM Best's Title Insurance Outlook & Perspective on Innovation

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Presenters

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Agenda

- Introduction
- Economic Environment
 - Set the stage
 - Main components driving current economic conditions
 - Government response
 - Housing market indicators
 - Economic outlook heading into 2021
 - Upside potential
 - Downside risks
- Innovation
 - Innovation in the ratings process
 - Innovation in the title industry
 - Blockchain
 - Remote Closing & Signature
 - Technology and Cyber
 - New InsurTech Companies

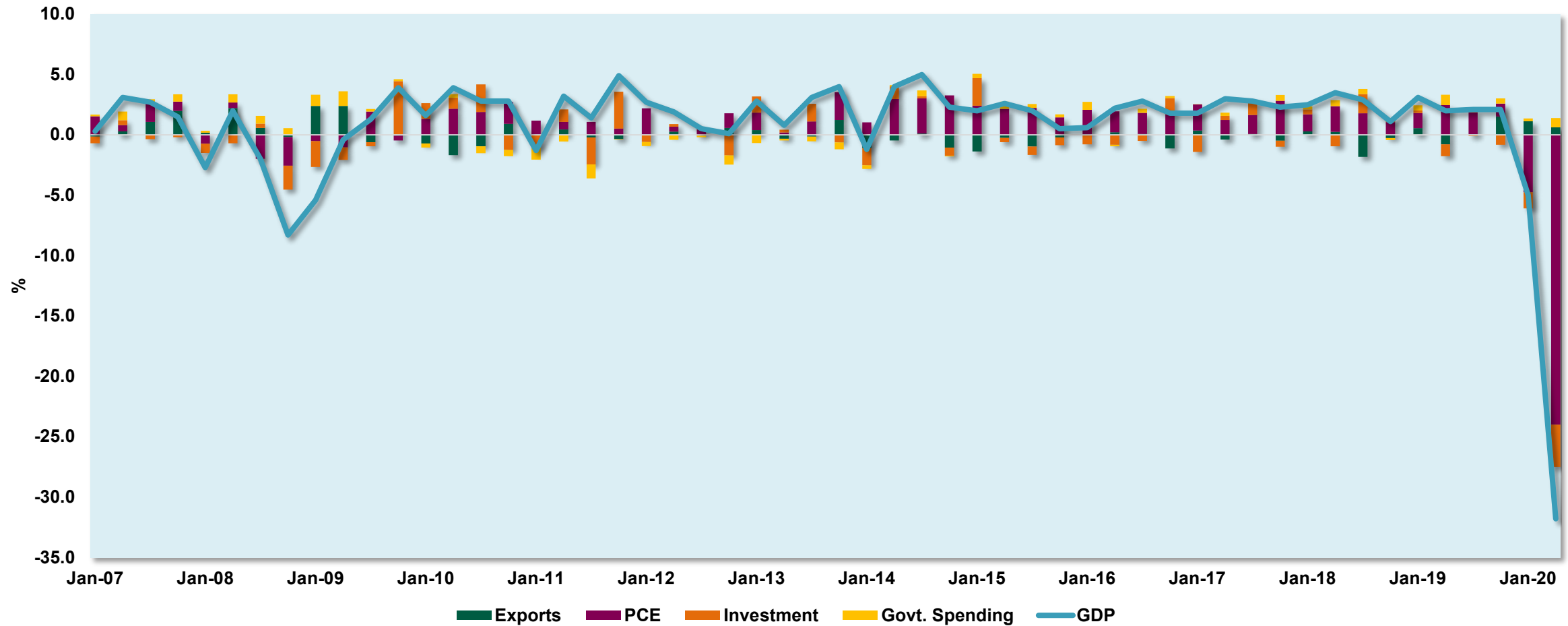
Introduction and Economic Environment

Set the Current Stage

- We are still in the midst of a global pandemic with millions infected and hundreds of thousands dead... more to come
- The economy was shut down; now re-opening with restrictions
- Declines in economic activity and employment were immediate and unprecedented
- The strength and the shape of the recovery has yet to be determined
- Complicated by the inherent interplay of opening the economic and the increase in the number of new cases
- Path of pandemic drives all – uncertainty

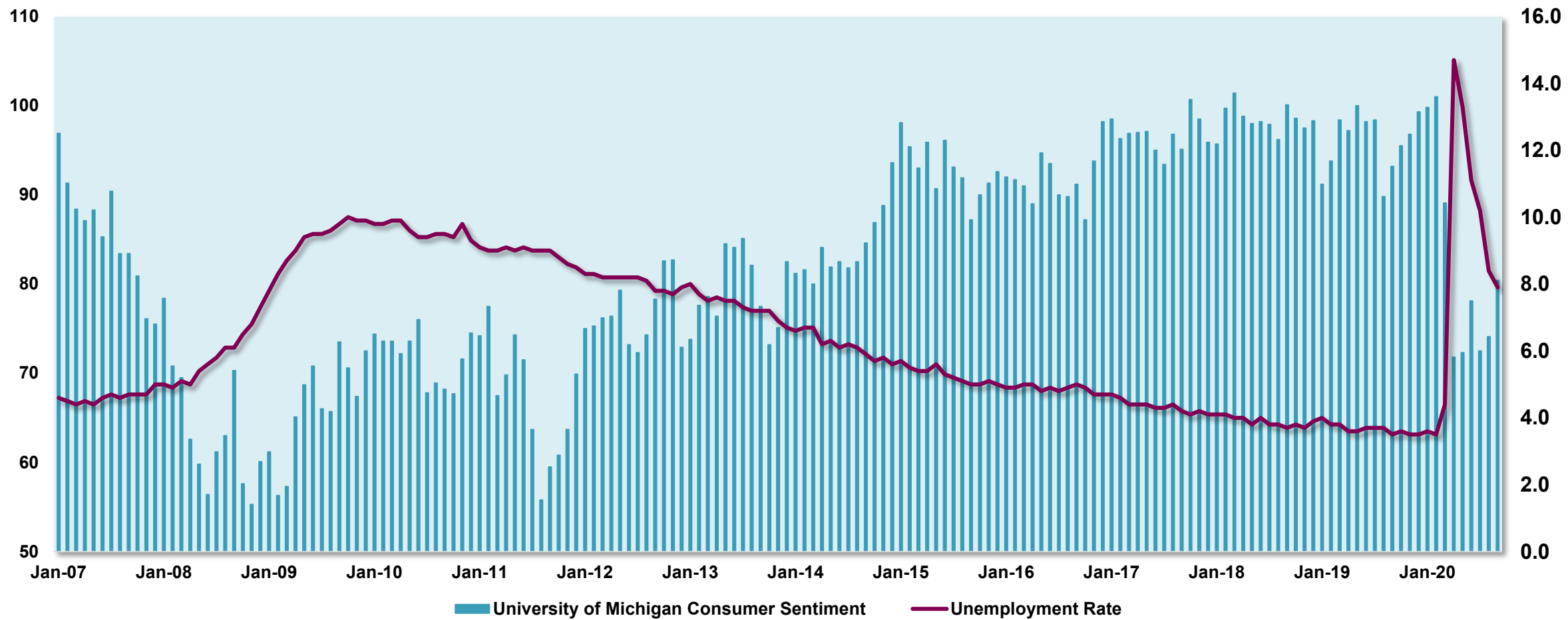
A Massive Shift In Trend – Consumer Drags on Economy in 2020

Components on GDP Growth



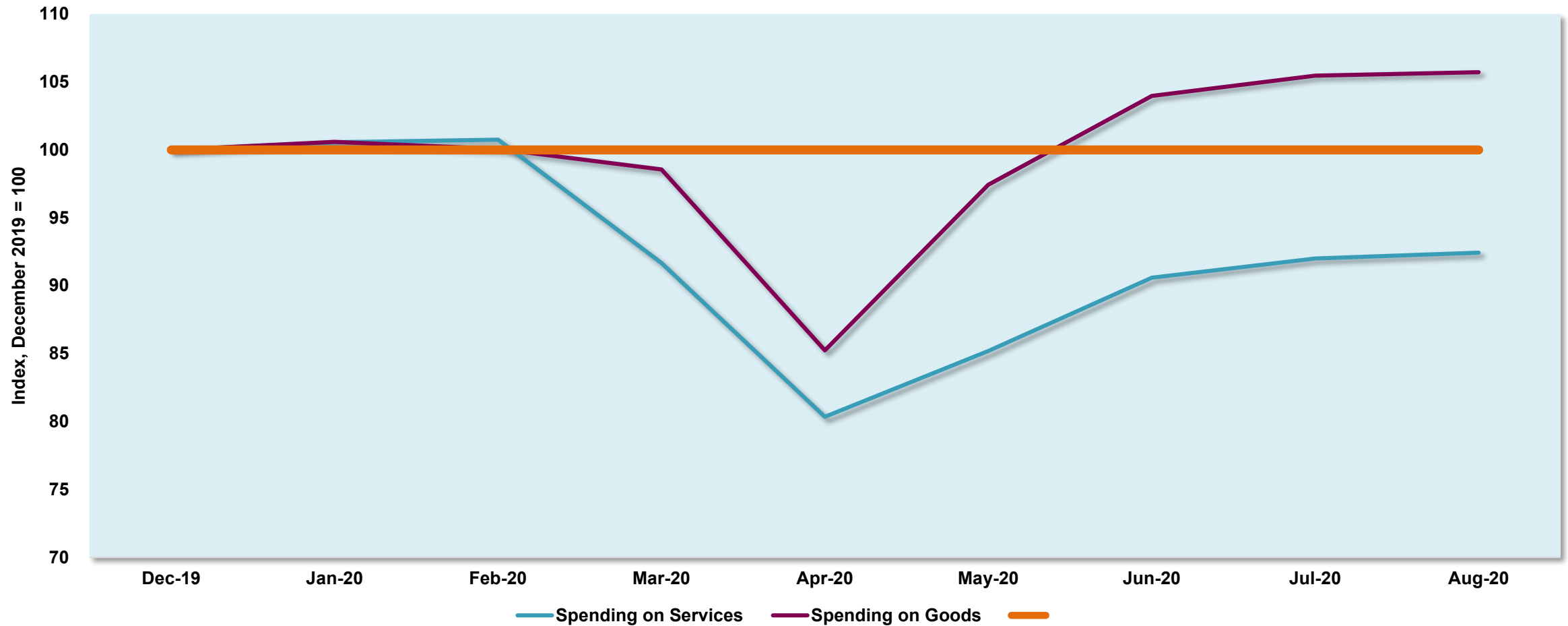
Consumer Sentiment

Sentiment Rises in September Despite High Uncertainty

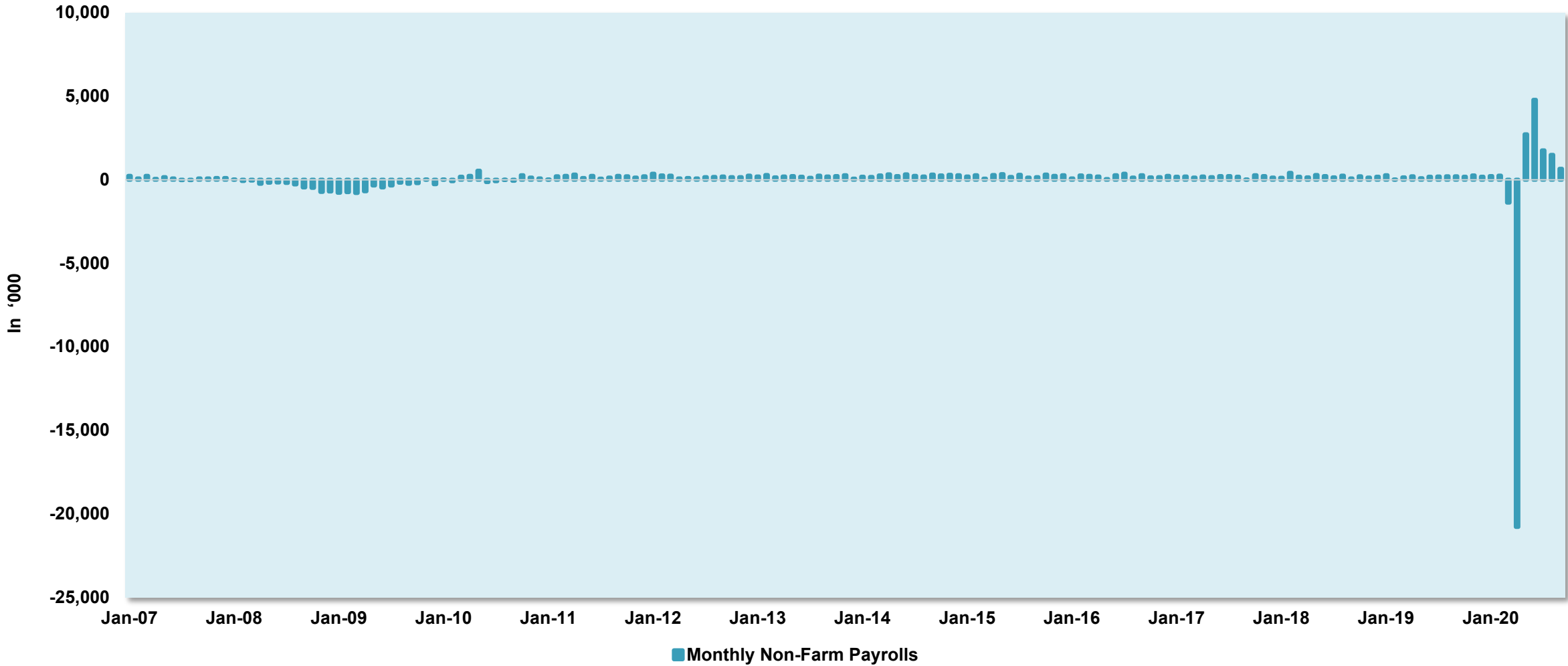


Spending on Goods has Recovered, Not for Services

Changes in Consumer Spending Since the Beginning of the Year



Job Losses – Only Half Recovered



Recovery Seems to be Losing Momentum

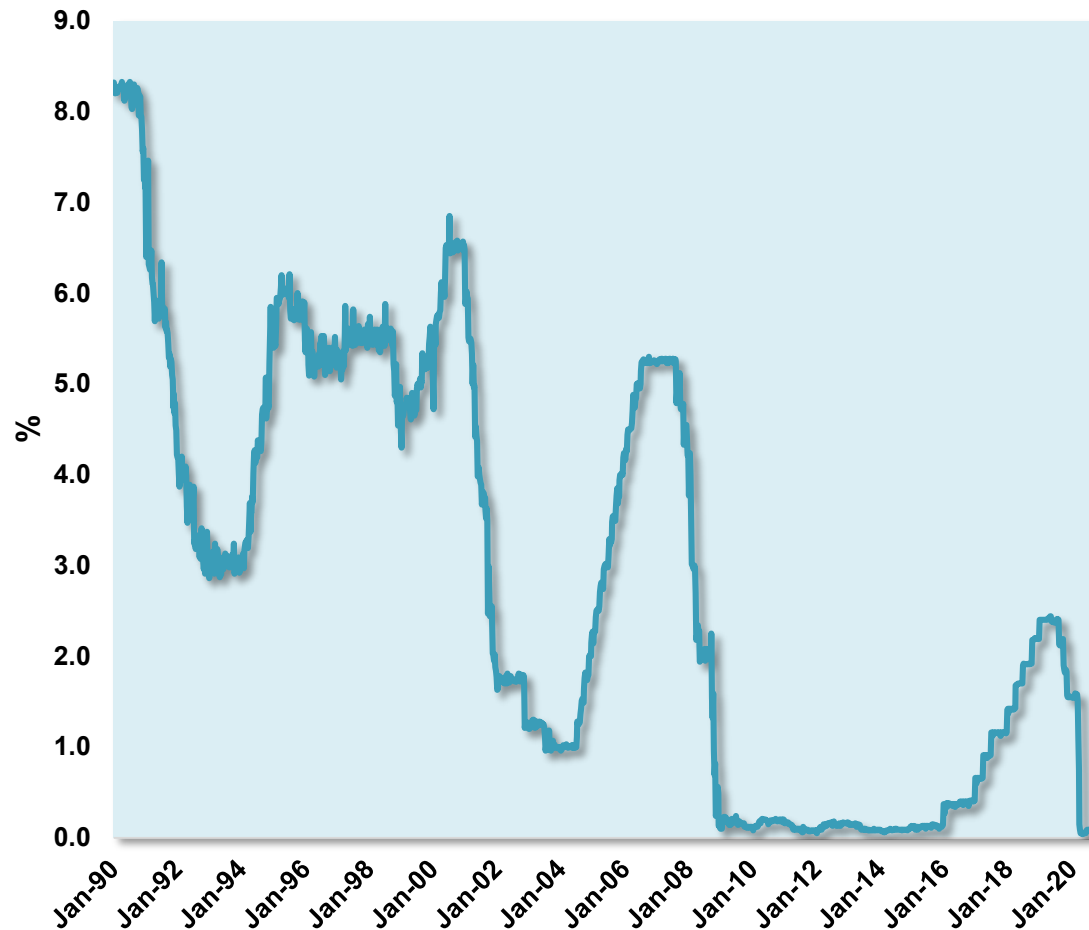
- We are going to have a strong 3Q number
- Signs that the recovery could have reached its peak
 - Credit card spending has declined
 - Declines in initial job claims seems to have flattened
 - Temporary furloughs have become permanent layoffs
 - Federal Reserve releases a Weekly Index
 - Wave of business closures
- Slowdown started to occur prior to stimulus ending. The end of many programs will certainly cause additional slowdown
- The quick uptick in new cases is concerning for Q4 economic activity

Extraordinary Stimulus for an Unprecedented Crisis

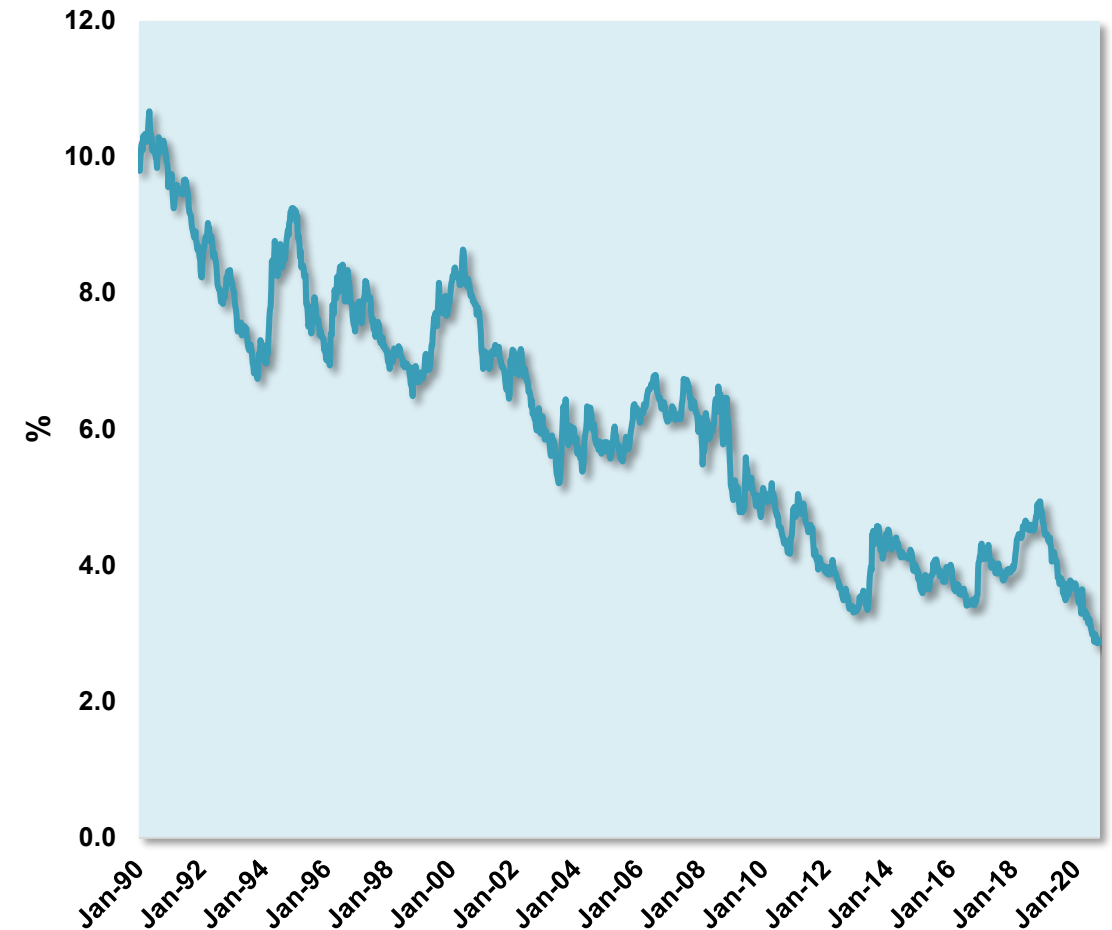
- Fiscal Policy – 15% of GDP
 - Coronavirus Aid, Relief and Economy Security Act (“CARES Act”)
 - Paycheck Protection Program and Health Care Enhancement Act (“PPP”)
- Monetary Policy
 - Federal funds rate was cut by 150 bps in March
 - Provided increased liquidity by purchasing assets in the market
 - Lower regulatory requirements to help facilitate lending

Monetary Stimulus – Historically Low Rates

Federal Funds Rate

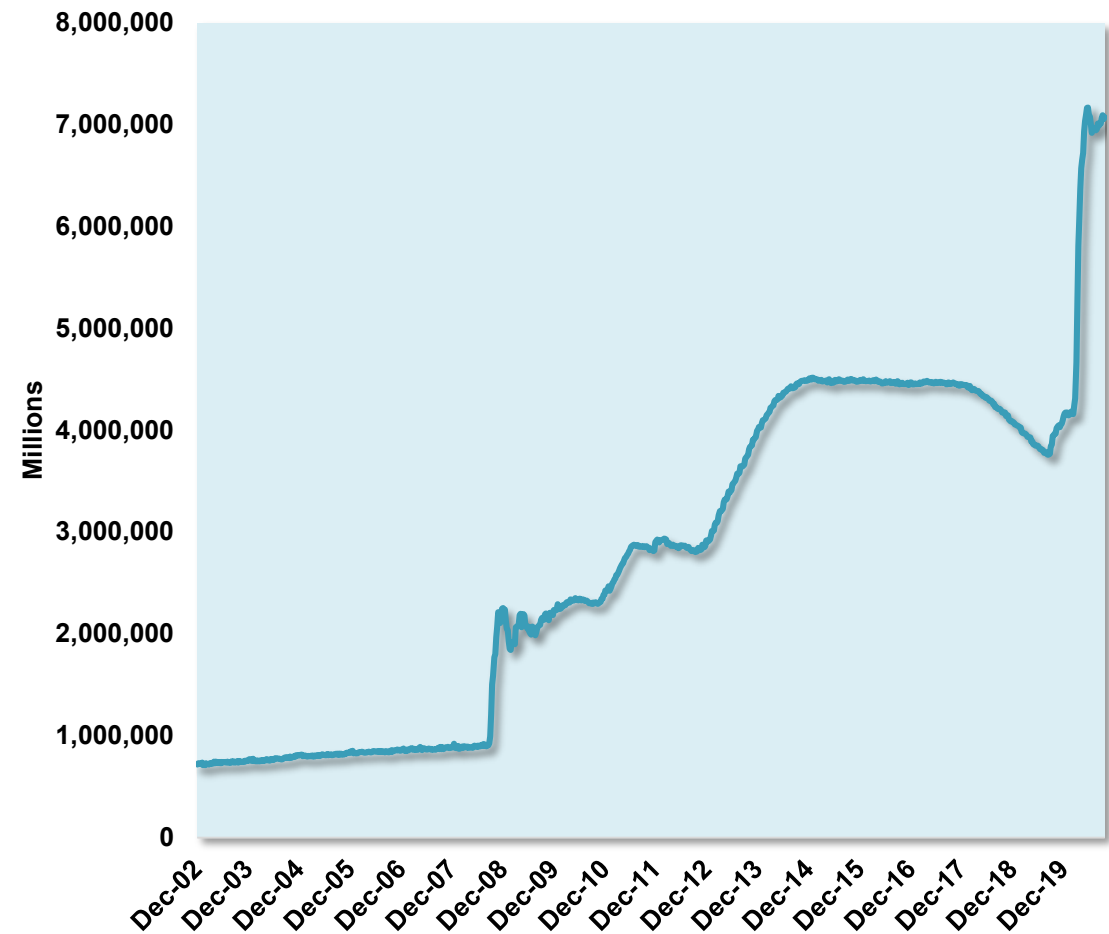


30 Year Fixed Mortgage

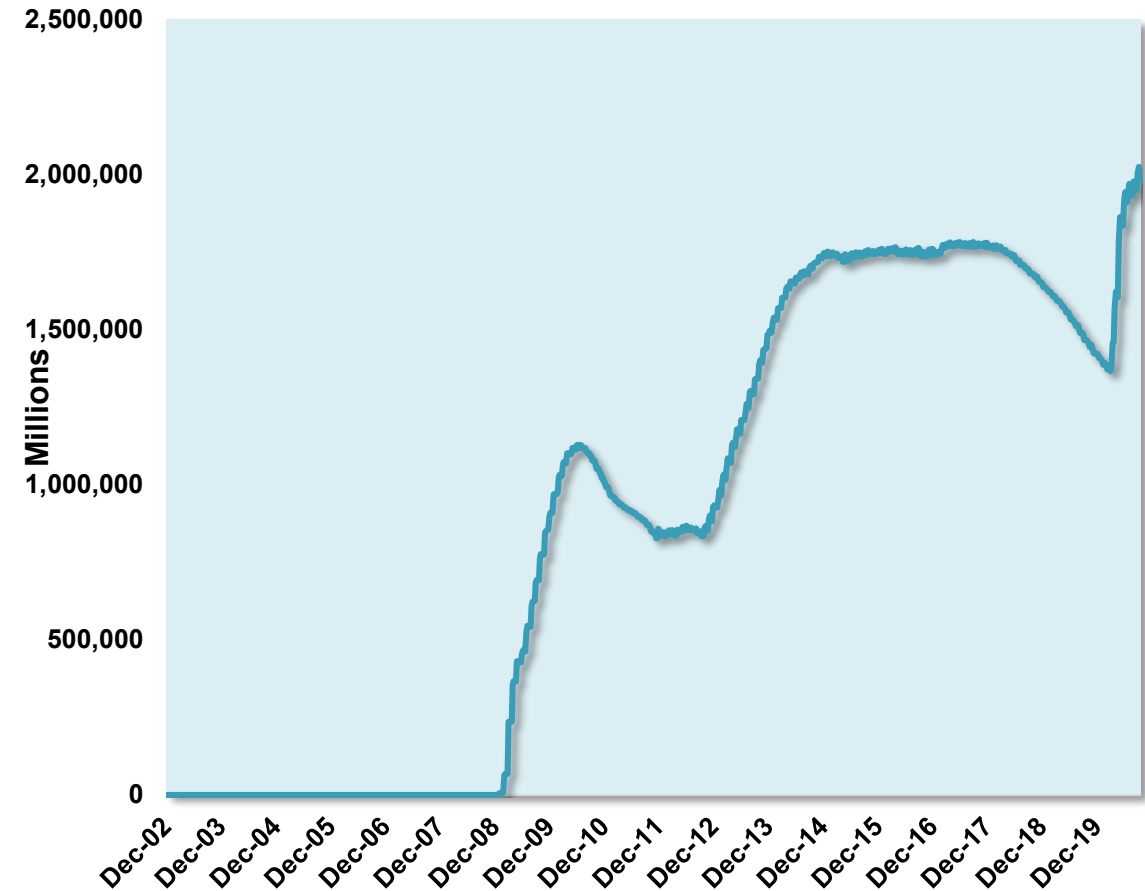


Federal Reserve Assets

Total Fed Assets

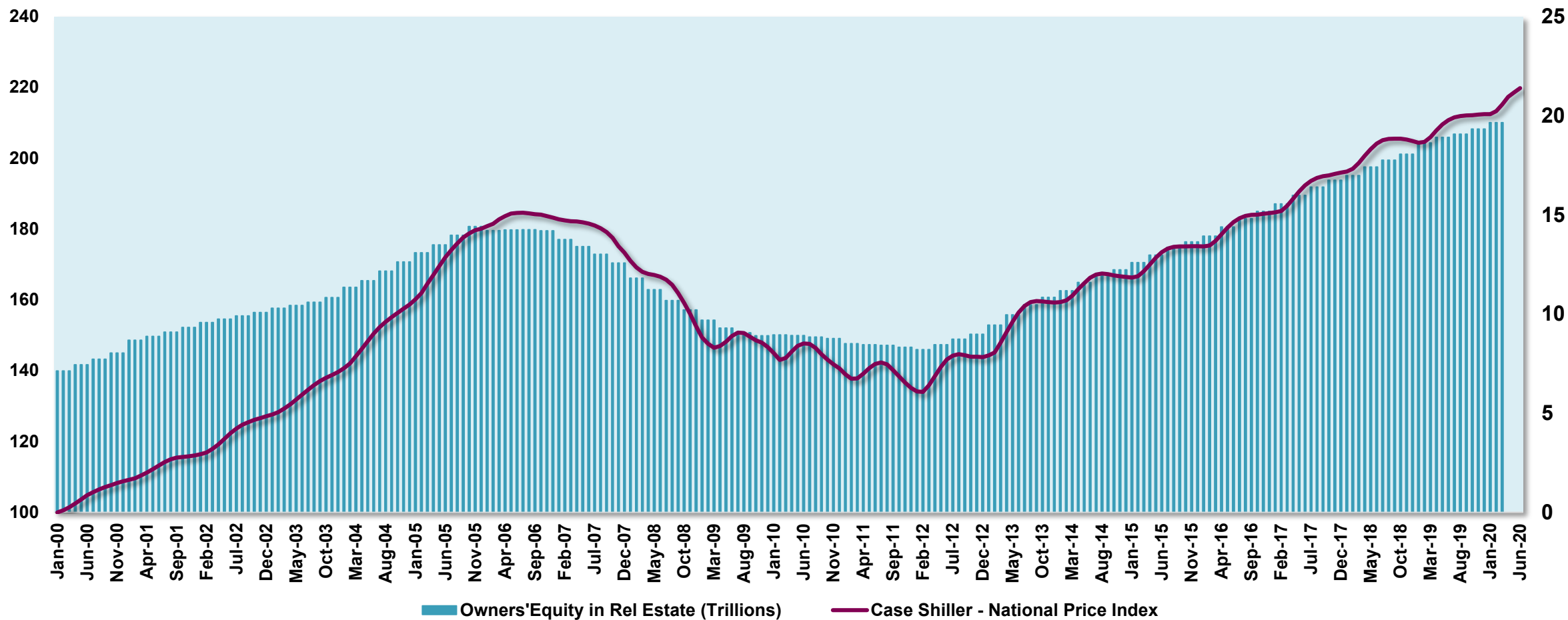


Fed's Holding of MBS



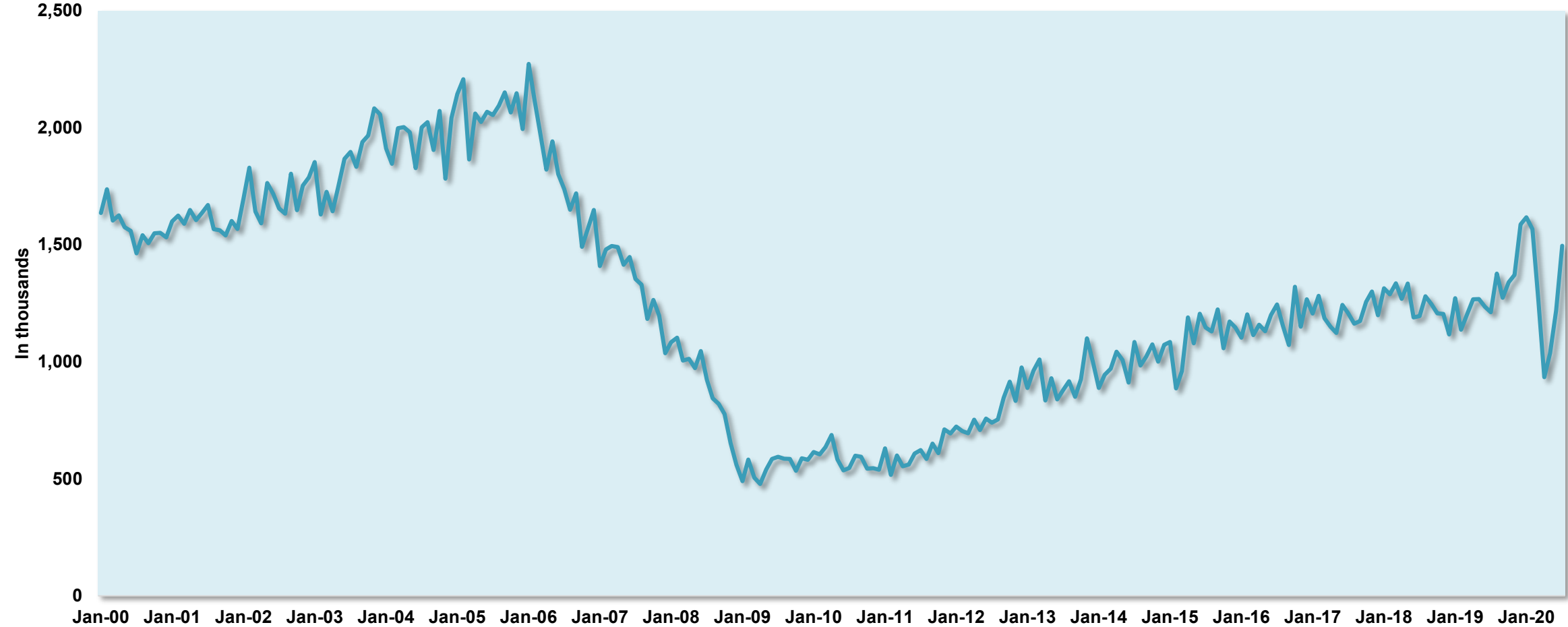
Housing Prices

Home Owner's Equity Continues to Soar



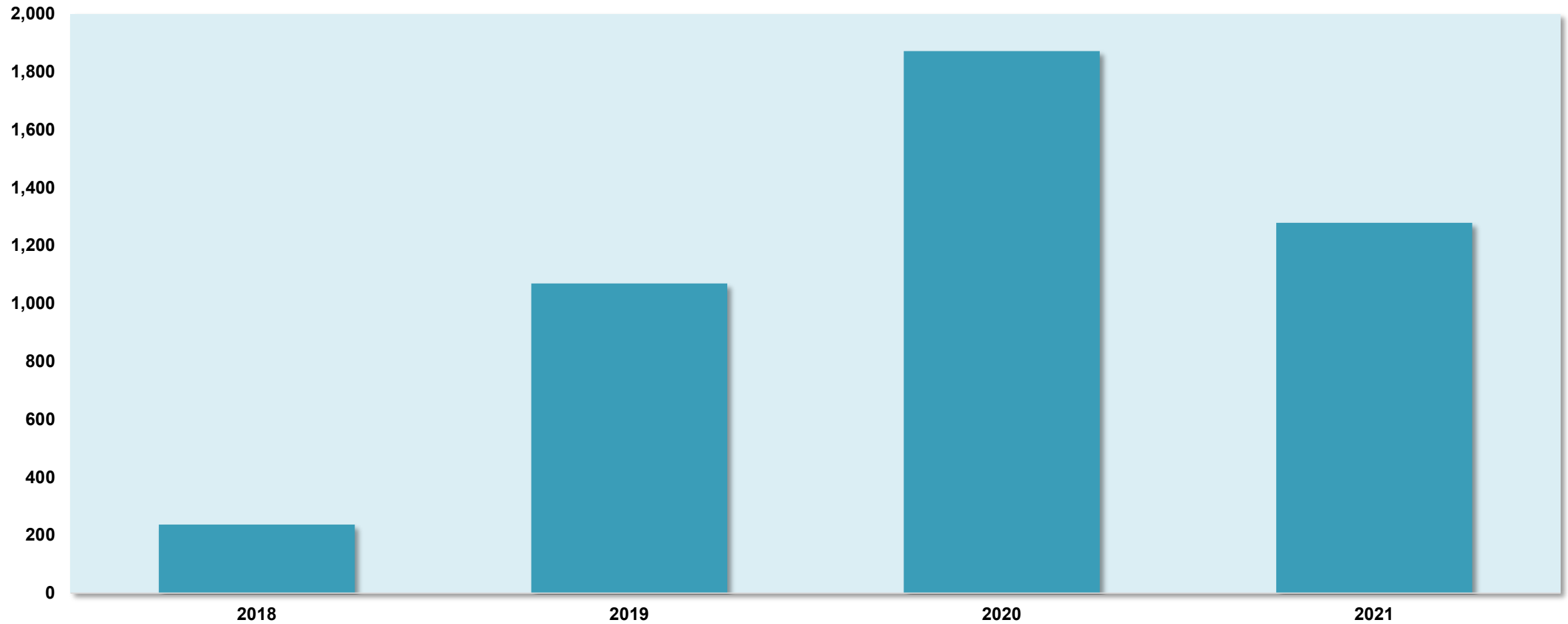
Low Inventory

Monthly Housing starts



Historical Refinancing Activity

Refinance Originations, Billions



What Could Go Right/Wrong?

- Upside potential
 - Vaccine (likelihood mid-2021)
 - Consumers remain resilient
 - Broad fiscal stimulus is quickly approved
- Significant risks are tilted to the downside
 - Second wave of the virus due to seasonality and increased mobility
 - Election uncertainty
 - Stimulus remains stalled or limited
 - Length of pandemic causes consumer behavior to become anchored
 - Unemployment rate remains sticky

What Is The Recovery Determined By?

Consumer health

The path of the pandemic

Long term scarring – knock on economic effects

Effectiveness of the government's policy responses

AM Best Outlook



AM Best's Outlook

- AM Best maintained its Stable Outlook in 2019 and through 1st Quarter 2020 due:
 - Favorable employment trends (low unemployment & moderate wage gains)
 - Consumer confidence
 - Consumer demand for homes.
 - Solid housing market (low mortgage & foreclosure rates)
- In April, as COVID-19 hit the nation, the Outlook was revised to Negative due to:
 - Lockdown and social distancing measures
 - Business closures
 - Rising material costs
 - Labor and land shortages
 - Higher home prices
 - Uncertainties about government intervention

AM Best's Innovation Scoring

Innovation

- Innovation covers a wide range of efforts in an insurance company:
 - Upgrading and digitizing legacy operations
 - Improving the experience of policyholders, distributors, and employees
 - Major changes in products, platforms, and services
- Looking at the real estate industry in general and title insurance in particular, innovation measures addresses all these efforts.
- AM Best's Innovation Scoring process – Input & Output

AM Best's Innovation Criteria (Input)

Leadership

- Board Participation
- Leadership Promotion and Expertise
- Vision
- Innovation Rationale

Culture

- Levels of Participation
- Embeddedness
- Failure
- Innovation Incentives
- Communication
- Agility

AM Best's Innovation Criteria (Input)

Resources

- Personnel – Time
- Personnel – Diversity and Education
- Innovation Budget
- Systems/Technology
- External & Internal Innovation Resources

Process and Structure

- Innovation Strategy and Linkage
- Innovation Development Process
- Replication
- Integration
- Data – Governance, Management and Use

AM Best's Innovation Scoring (Output)

Results - Examples

- 1: The company has minimal, if any, measurable results from its innovation initiatives or has no initiatives in place.
- 2: The company has demonstrated a measurable impact on its results from its innovative process/initiatives. The company has been able to generate ad-hoc innovation results, but whether the results can continue into the foreseeable future is uncertain.
- 3: The company has demonstrated measurable results from its innovative process/initiatives in its financial results and can identify areas affected quantitatively, such as improved underwriting experience. The results are sustainable and very likely to continue over the near to medium term.
- 4: Innovation has resulted in a sustainable competitive advantage, with a measurable impact over a sustained period, and is replicable. The company has been proactive in using innovation to outmaneuver competitors and potential disruptors.

AM Best's Innovation Scoring (Output)

Transformation - Examples

- 1: The company's innovation output is primarily the result of replication of well-used or mature processes or technology.
- 2: The company's innovation output is not industry-leading. The company has adopted some emerging technologies.
- 3: The company's output indicates that it is an industry leader in innovation. Peers often replicate the output results. The company is viewed as a leader in the industry.
- 4: The company effectively uses cutting-edge processes and technology throughout the enterprise. The company's innovation is at levels comparable to leaders even outside the insurance industry.

AM Best's Innovation Scoring

Summary

- Input Score: Each pillar is assessed at Positive, Neutral or Negative resulting in 1 (low) to 4 (high) score.
- Innovation Input Score is the addition of all pillars' scores
- Output Score: Results and Transformation, each gets 1 to 4 scores
- Innovation Output Score = $2 \times (\text{Results} + \text{Transformation scores})$
- Overall Innovation Score = Innovation Input Score + Innovation Output Score
- Minimal (less than 12) Moderate (12-17), Significant (18-22), Prominent (23-27), Leader (greater than 28).

Innovation

- The first trend is enhancement which includes those companies developing technology designed to integrate with existing real estate businesses, such as:
 - Providing technology for workflow management to title agents (Qualia);
 - Allowing realtors to offer title insurance through Joint ventures and partnerships (Modus);
 - Providing the underwriters a technology which will make them to remain competitive in a quickly evolving market (Endpoint)

Innovation

- The second trend includes companies which displace existing real estate business altogether, such as:
 - States Title, which is reinventing the underwriting process,
 - Jet Closing which displace traditional agencies through offering an efficient, tech-driven title/closing experience;
 - Residential brokerage platforms such as Flyhomes, Knock and Orchard that are building end-to-end platforms that span the homebuyer's entire journey.

Innovation

- Below is a list of InsurTech companies we will discuss in brief:
 - Qualia
 - Modus
 - Truly Title
 - Spruce
 - State Title
 - OneTitle
- It remains to be seen what impact the upcoming startups will have on the market and industry and whether or not they will be tangible, consistent and sustainable

Questions?

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