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RUDD AND WISDOM'S RESPONSE TO TDI'S 2025 TITLE RATE REPORT

LOOKBACK PERIOD SCENARIOS

The Texas Department of Insurance (TDI) calculated the rate indication using 5-year, 10-year, 15-year, and 20-year lookback periods.

The pandemic years (2020–2022) were unique outliers, marked by a sharp decline in interest rates, rapidly rising home prices, supply shortages, and a surge in refinancing activity. These factors drove premium volume to record levels. Beginning in 2023, however, premium volume fell sharply and has since returned to levels consistent with the pre-pandemic period.

Because the pandemic period reflects extraordinary conditions that are not representative of the current or expected future market, reliance on shorter lookback periods gives disproportionate weight to these outlier years. A longer lookback period provides a more balanced view of long-term experience. Specifically, we recommend using a **20-year lookback**, as it captures two significant offsetting cycles: the pandemic period and the Great Recession.

In addition, the 20-year lookback produces a rate indication that is consistent with the 2-year lookback based on the 2023 and 2024 average experience. The 2-year lookback period is reasonable because it more closely reflects current market conditions. The chart below compares the rate change under TDI's lookback periods with the 2-year lookback period, assuming a 12.0% profit provision (discussed below).

Component	5-Year (2020– 2024)	10-Year (2015– 2024)	15-Year (2010– 2024)	20-Year (2005– 2024)	2-Year (2023– 2024)
(1) Loss/LAE ratio	1.8%	1.9%	2.2%	2.4%	2.9%
(2) Expense ratio	72.8%	76.1%	77.1%	80.0%	79.3%
(3) Cat loss provision	1.0%	1.0%	1.0%	1.0%	1.0%
(4) Total	75.6%	79.0%	80.3%	83.4%	83.2%
(5) Profit provision	12.0%	12.0%	12.0%	12.0%	12.0%
(6) Rate change	-14.0%	-10.2%	-8.8%	-5.2%	-5.5%

UNDERWRITING PROFIT LOAD

The underwriting profit load provision is a margin included in rates to ensure that, together with investment and other income, title insurance firms earn an adequate return relative to the capital required and the risks associated with selling title insurance.

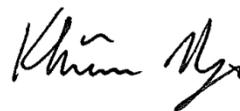
The cost of capital reflects the total rate of return required by investors in industries with business risks comparable to those of the Texas title insurance industry. Title insurance firms earn part of this return from investment income; the underwriting profit load provision in the rating analysis represents the difference between the total cost of capital and the portion already achieved through investments.

Based on a report from Dr. Greg Hallman, the Texas Land Title Association (TLTA) determined the cost of capital to be 15.4% using three widely accepted methods—CAPM, Fama-French, and Discounted Cash Flow—based on the most recent public data for businesses with comparable risk profiles to the Texas title insurance industry. From this cost of capital, TLTA calculated a required underwriting profit load provision of **12.0%**.

By contrast, the Office of Public Insurance Counsel (OPIC) relied on the analysis of AIS Risk Consultants, Inc. (AIS) dated January 21, 2025, which used a profit load provision of **7.0%**. The significant difference between the AIS (7.0%) and TLTA (12.0%) provisions arises because AIS did not calculate a cost of capital specific to title insurance. Instead, AIS adopted a profit load provision based on other property and casualty lines of business, which are not comparable to the unique risks of title insurance. We believe this approach is inappropriate. The cost of capital must be derived from businesses with risk characteristics comparable to the Texas title insurance industry in order to establish a reasonable and supportable profit load provision.



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