



Sporadic refinance market drives agents' need for flexible staffing

Outsourcing certain tasks can offer solution to increasing throughput without adding cost

While the recent refinance boom over the past couple of months has provided much-needed business for the title insurance industry, many title agents were ill-prepared to handle the spike in orders after drastically cutting payrolls last year in order to reduce fixed expense. Because of this, some agents were forced to turn business away because they didn't want to temporarily hire staff to handle business that may dissipate rapidly.

The sporadic market has forced agents to re-evaluate their operations and has made outsourcing certain job functions a plausible solution to meet order demand and maintain throughput, while keeping fixed cost to a minimum.

Prashant Kothari, founder of String Real Estate Information, noticed a significant spike in interest in outsourcing the last six months as agents struggle gauging refinance activity and are cautious about taking on more staff. He recently had a meeting with one of his clients in California regarding this very issue.

"This agency is very conservative, old school, but now they are having a different attitude," he said. "During the refi boom they rehired, then they had to let go the people they hired two months ago because of a slow down. The agency is saying there are significant financial and employee-morale costs associated with doing that."

Kothari said String has a couple of clients in Arizona and Minnesota that have expanded over the past six months despite market conditions. These agencies continue to perform front-office functions, but send all

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back-office tasks to String. Each agency has no more than 50 orders per month, "but it still makes sense to send the back-office jobs to us. It depends on how much they want to outsource."

About 70 percent of the orders String receives pertains to refinances, while 20 percent is default and foreclosure, and 10 percent is purchase or resale.

The type of job functions outsourced have evolved over the years, but Doug Bello, president of D. Bello Associates, said plant outsourcing and production workflow — such as data entry for title commitments and policy preparation — and tax preparation, have remained staples. Conducting portions of searches and examinations are growing where plants are online.

Beyond the traditional data entry, some escrow reconciliation and HR tasks, Kothari said title agents also use his firm in a vendor management fashion, having String schedule closings and notaries. Title agents looking to move into states where they don't have existing offices require vendors to get deals completed.

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“Agents are having us manage new abstractors,” Kothari said. “If an order comes in from a lender, they have us assigning orders and QC the abstract to prepare the preliminary report. These title agents don’t want to hire staff in these markets because they aren’t sure what the business forecast will be in that market.”

Bello, who has spent his entire career in the title insurance industry starting in 1970 when he took a job with Chicago Title in Los Angeles, founded D. Bello Associates in 1988 with the intention of offering title plant consulting to the industry. In 1991, D. Bello Associates joined forces with HDEP International and PFA, Inc. to form The Title Team in an effort to advance offshore keying of daily title plants and scanning of daily recordings. Bello, whose company serves underwriters and agents from Hawaii to Florida, said his clients want to get a product that is faster and better than what can be produced in-house.

By funneling tasks to an outsourcing vendor, agents can reduce fixed cost by switching to a variable cost model. On average, agents can save 25 to 40 percent per file, saving on labor and equipment, according to Bello and Kothari.

First American Corp.’s ability to streamline its title production and offshore processing were key elements to why it recorded industry-best pre-tax margins, the company’s chairman said during a presentation last summer.

“Our margins signify how we have transformed the company over the past 18 months,” **Parker Kennedy** said during the presentation. “We have a competitive advantage because of our FAST system.”

Kennedy said the Web-based FAST system has allowed First American to operate more efficiently. It also allows the company to offshore more of its processing work to India and the Philippines.

“During the second quarter of 2008 there was a clear indication that we are starting to see the upside in that,” Kennedy said. “We will push more and more functions offshore as time goes by.”

First American reported last year that it has more than 5,600 offshore employees, compared to about 8,900 employees in the United States. Overall, the company’s workforce is 44 percent smaller than its peak of 22,000 in 2007.

Kennedy admitted there is a point where First American won’t be able to continue cutting expense to match revenue reductions, but said that is tempered by its offshoring capabilities.

“We have a few benefits that some other companies don’t have and it revolves around the ability to offshore,” he said. “We could reduce expenses without really hurting the ability to service the customer. Without eliminating a product, we could offshore and continue bringing that to our customers.”

Outsourcing isn’t just for the large national title companies any more. Three or four years ago, the typical title agent that utilized outsourcing handled 100 to 125 orders per month, and weren’t the traditional mom-and-pop shops that operated in mid-size counties. Those order counts have trended downward since the market collapsed, and are about half that today. Many single-state agents are using outsourcing and/or offshoring to streamline costs.

Cheryl Baillis, the former chief operating officer with Western Title & Escrow Co. in Bend, Ore., recommended beginning outsourcing with the simplest tasks an agency performs. In her company’s case, that was typing and order entry.

That allows an agency to test the outsourcing vendor’s performance before supplying it with anything more complicated.

Later, Western Title outsourced its 401(k) and employee benefits plans, she said. “Employees like it, because the vendors are the experts in that area,” Baillis said.

Chip Ridge, president of Heritage Title in Louisville, Ky., said his company initially outsourced its typing on a test-basis to a vendor for a month or two, while at the same time it kept doing the work itself.

“We really limped into it,” he said.

But it was worth duplicating the work for a short time so the company could assess the vendor’s quality and efficiency, Ridge said.

“You have to do it with a definite plan of attack in place,” he said.

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Outsourcing doesn't work in all instances. Bello shared a story of a back plant endeavor in the Midwest where an agent selected an offshore company. The agent never sent a representative to the site and didn't pay attention to the development.

"The plant came back in fragmented pieces," Bello said. "It ended up being such a mess. The plant was unsearchable and the agent had to purchase another title company to do searches and the offshoring company shut down."

Kothari said it's important to have constant communication — whether it's via e-mail, instant messenger or phone — between the title company and the outsourcing vendor. This is important so there's no confusion about turn times and quality.

"This seems trivial but it's the No. 1 issue," he said. "The more clearly things are spelled out in writing, the easier it is to outsource. All guidelines need to be spelled out beforehand. We've noticed that a title company may have done things a certain way. To expect us to replicate the process without getting a blueprint is unrealistic."

Other issues to discuss with an outsourcing vendor include which company assumes the liability for errors in a search and exam, whether or not an agency will get detailed status reports of searching and data plant keying, and what holidays the vendor observes and will be closed.

When considering outsourcing, title agents should examine

what problems they have in-house. Does the agency have constant turnover?

"If employees are leaving within a year, outsourcing may be the answer because you don't have to worry about peaks and valleys, overtime and paying benefits," according to Bello.

Tapping into an outsourcing vendor provided the agent access to a stronger labor force while turning around a high-quality product even faster.

"If you are in an area where the labor force is not very strong, you may be more apt to outsource," Bello said.

"When you start down the path, you need to look at your own system. Can you end up with a better product in the long run through outsourcing? Title companies should do what they do best, such as issuing policies."

There are plenty of success stories, however, according to Bello. He gave an example of an agency that opened in 1988. This agency sent people to the offshore company, which has built a plant over the years. Visiting an offshoring company's facilities can help an agent learn whether or not the vendor truly understands the title insurance industry.

"The agent has enjoyed great success and has expanded into a third state all because they outsource," he said. "The agent didn't have the resources to grow and the internal staff was a headache."

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