INSURANCE COUNCIL OF AUSTRALIA

Media Release

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APRA should include LMI in major bank capital models, say insurers

The Insurance Council of Australia (ICA) has called on the Australian Prudential Regulation Authority (APRA) to consider the role of lenders mortgage insurance (LMI) as it moves to implement regulatory changes to address recommendations of the Federal Government's Financial System Inquiry (FSI).

Released on December 7, 2014, the Government's FSI Final Report makes 44 recommendations to serve as a blueprint for the financial system over the next decade.

On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by authorised deposit-taking institutions (ADIs) accredited to use the internal ratings-based (IRB) approach to credit risk. (The average risk weight on residential mortgage exposures will rise from around 16 to at least 25 per cent.)

The change is designed to address the FSI objective of bringing greater resilience to the market and will come into effect July 1, 2016.

ICA CEO Rob Whelan said he hoped APRA would consider other FSI observations such as the benefits of maintaining a high level of risk sensitivity in the capital framework and to recognise LMI where appropriate.

Mr Whelan said LMI should be recognised as having an important role to play in achieving this outcome.

"The ICA believes that a lack of recognition of LMI in IRB bank capital models may ultimately lead to higher Loan to Valuation Ratio mortgages on a non-LMI covered basis. This could increase the system's susceptibility to significant stress events," he said.

Mr Whelan said the industry would continue to work with regulators to seek to ensure appropriate recognition of the additional system capital made available by LMI providers.

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