



Insurance Council
of Australia

22 May 2024

Help to Buy Unit
Treasury
Via email: housing@treasury.gov.au

Dear sir/madam

Help to Buy Program Directions 2024 exposure drafts

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission on this important topic.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premium of \$64.5 billion per annum and on average pays out \$147 million in claims each working day (\$36.5 billion paid out per year). This includes insurers who offer lenders mortgage insurance (LMI).

The Insurance Council welcomes Australian Government initiatives designed to improve access to home ownership in Australia. Housing plays a critical role in supporting the social and economic wellbeing of Australians.

Lenders Mortgage Insurance

LMI is a crucial but sometimes overlooked component of the Australian home lending market. It supports the economic stability of the financial system and facilitates home ownership, accessibility to credit and competition. The industry welcomes recognition of the importance of the private LMI market by Government.¹

Some benefits of LMI products include:

- *Helps improve access to home ownership.*
By enabling those who would otherwise have difficulty obtaining a home loan due to lack of a 20 per cent deposit or an established credit repayment history, LMI is particularly beneficial for first home buyers. With the benefit of LMI, many first home buyers are able to buy, move into and accumulate equity in their home much sooner; and obtain a home loan that may otherwise not be available if the lender could not manage the risk or capital requirements.

Typically (although not always), the cost of the LMI premium is passed on by the lender to the borrower as a fee, and the borrower generally has the choice to capitalise the cost of the LMI premium. This means the borrower does not need to pay this cost upfront and instead can spread the cost over the life of the loan. Our members have indicated the cost of LMI is often significantly less than the application of a higher risk-based interest rate applied over the life of the loan.

¹ *Explanatory Memorandum to the National Housing Finance and Investment Corporation Amendment Bill 2019.* Available [here](#).

- *Facilitation of lending competition.*

LMI encourages and facilitates competition in the high loan-to-value ratio (LVR) lending segment. High LVR borrowers are an important segment that includes many first-time home buyers. The availability of LMI assists smaller lenders compete with larger lenders. As the Productivity Commission has noted, LMI provides a way for smaller lenders to manage their risks and “makes them more willing to lend to higher-risk borrowers”, which can encourage them to “more fully compete in the home loan market.”² LMI is also particularly important for lenders with geographic concentration, where LMI plays a critical role in their market participation enabling them to offer home loans in, for example, regional and rural Australia.

- *Supports the financial system and continuation of lending through economic cycles.*

The LMI industry plays a significant role in facilitating the efficient management of capital and diversification of risk in the banking system, providing systemic housing loan risk protection by transferring risk outside the banking system.

LMI is an economic catastrophe line of insurance and given the nature of the risk, LMI insurers are required to hold significant capital against an economic downturn meeting both APRA's regulatory requirements and independent rating agency capital requirements. LMI provides a significant independent layer of capital supporting credit default risk for home lending.

- *Use of private capital and reduction of government intervention*

As recognised by the Government, Australia is relatively unique in having an active market for LMI, using private sector capital to take the risk.³ Where comparable countries have no private LMI market, governments have intervened to support high-LVR lending.⁴ Government interventions can increase the financial risk to governments and ultimately taxpayers.

LMI and the Help to Buy Scheme

The Insurance Council is of the view that any Government measures to support home ownership should be targeted in a way that supports home buyers in genuine need of assistance, rather than all home buyers that could otherwise access a high LVR home loan.⁵ The Help to Buy Scheme appears to be aimed at achieving this, however we suggest greater clarity could be given in the financial capacity test set out in *Section 20* of the draft direction to ensure this objective is achieved. There is currently an inconsistency between the draft explanatory statement and the draft directions in relation to the financial capacity test. The draft explanatory statement refers to the financial capacity of the applicant(s) which includes their mortgage serviceability, the value of their assets and any other government assistance, while the draft directions only refer to the value of their assets and any other government assistance. We suggest the draft directions be edited to match the draft explanatory statement and references the applicant(s) mortgage serviceability. The test should explicitly consider the borrower's ability to service monthly repayments on a high LVR loan without Help to Buy, whether this includes a higher interest rate or after capitalisation of LMI or a combination of both.

Additionally, the draft explanatory statement indicates that the minimum and maximum contributions to purchase price set out in *Section 16* of the draft direction should result in contributions by Housing Australia that are only necessary to avoid LMI. This could also in practice result in accessibility to the

² Productivity Commission. 2018. Competition in the Australian Financial System. Available [here](#).

³ Explanatory Memorandum to the *National Housing Finance and Investment Corporation Amendment Bill 2019*. Page 17.

⁴ Analysis of comparable countries and relevant schemes can be found in the *Explanatory Memorandum to the National Housing Finance and Investment Corporation Amendment Bill 2019*.

⁵ High LVR loans can be accessed either with LMI or higher interest rates which are designed to represent the fair price for the additional credit risk associated with high LVR loans.

scheme by borrowers that could otherwise access a home loan. Again, we suggest that there be explicit recognition that the contributions should be determined to ensure those home buyers in genuine need of assistance are able to access the scheme and the contributions are not calculated simply to “avoid LMI.” As outlined, LMI operates as an efficient market facilitating home ownership at low cost, using private sector capital rather than taxpayer funds to carry the risk, and may be lower than the cost of a higher risk-based interest rate.

The Insurance Council notes the reference in the draft explanatory statement to the draft directions that participants in the Help to Buy Scheme “can avoid LMI”. Given the important role LMI plays in ensuring financial stability and supporting the home ownership aspirations of many Australians, we would welcome a more consistent recognition of the importance of the private LMI market.⁶ Negative references to LMI by governments can increase the perception that LMI is of no benefit to borrowers, broader financial markets, or the economy. Such references are inconsistent with the recognised benefits outlined above.

Specifically, LMI could be a cost-effective alternative in future for a borrower that has purchased a home under the Help to Buy Scheme. This is recognised in *Subsection 36(7)* of the draft directions which provides the option for borrowers to make a repayment to Housing Australia in circumstances where this results in a payment of LMI. In practice, borrowers should be encouraged to consider the most appropriate option for their circumstances, including their financial capacity in the context of ongoing costs (whether interest rate or LMI or both) to achieve full home ownership and all the benefits that brings.

LMI is an integral part of the Australian housing market and as recognised in recent independent reviews, governments should consider the potential impacts on the viability of the private LMI market when proposing changes to guarantee or shared equity schemes.⁷

The Government should closely evaluate the effect of existing and future housing policies on the LMI market to ensure that the market remains competitive, and access to home ownership, though LMI, remains available via a well-functioning and competitive market.⁸

If you have any questions or comments in relation to our submissions, please contact Mr Eamon Sloane, Policy Advisor, Regulatory & Consumer Policy at esloane@insurancecouncil.com.au.

Regards



Andrew Hall
CEO and Executive Director

⁶ Explanatory Memorandum to the *National Housing Finance and Investment Corporation Amendment Bill 2019*.

⁷ Treasury. 2020. *Review of the operation of the National Housing Finance and Investment Corporation Act 2018 Issues paper*. Available [here](#); Productivity Commission. 2022. *Housing and Homeless Agreement review*. Available [here](#).

⁸ Insurance Council of Australia. 2024. [2024-25 Pre-budget Submissions](#).