Insurance Council of Australia

14 July 2026

Committee Secretary
Select Committee on Productivity in Australia

Dear Chair

Productivity in Australia

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission on behalf of our members who write Lenders' Mortgage Insurance (LMI) on this important topic.

The Insurance Council is the representative body of Australia's general insurance industry. Our members account for approximately 90 per cent of total premium written by general insurers and reinsurers. As a foundational component of the Australian economy, the general insurance industry writes 90 million policies a year, paying out $58.9 billion in claims in 2025 – an average of $226 million every working day.

LMI is a long-standing financial product that supports earlier access to housing credit for first home buyers, investors and upsizing households alike. However, multiple expansions of the Australian Government 5 per cent Deposit Scheme (the Scheme, formerly the Home Guarantee Scheme) have eroded the LMI premium base and shifted significant liability onto the Commonwealth balance sheet. Economic modelling by Lateral Economics suggests guaranteeing approximately 590,000 mortgages by 2030 could expose the Government to up to $62 billion in contingent liabilities.

LMI is an insurance product that protects the lender if a borrower can't repay their home loan and the property sells for less than what is owed. Lenders typically acquire LMI for high loan-to-value ratio (LVR) loans (more than 80 per cent LVR). LMI protects the lender for the life of the loan and for the entire value of the loan. The value of that loan may also include reasonable selling costs should the property sell under a mortgagee in possession situation. By mitigating mortgage lending risk, LMI helps lenders extend credit more confidently, supporting housing market activity, financial stability, and ultimately long term economic productivity.

By comparison, the Scheme is not an insurance product. It is a government guarantee that stands in place of a deposit, covering the shortfall between a borrower's deposit and 20 per cent of the property value (up to 15 per cent) on high LVR loans. The guarantee ceases once the guaranteed loan's LVR falls below 80 per cent. This comparison highlights the major differences between LMI and the Scheme. In short, LMI provides lenders with superior capital protection compared to the Scheme.

The Scheme transfers risk from specialist risk bearers to taxpayers, shifting risk to the public balance sheet, meaning taxpayers ultimately bear losses associated with housing market downturns. Private markets generally allocate and price risk more efficiently than governments.

In October 2025, the Scheme was significantly expanded. This expansion removed limits on annual Scheme participant numbers and income thresholds for participants while significantly lifting property price caps. This expansion of the Scheme intensified the capital risk inherent in the Scheme model.

We note that the expansion has contributed to significant price rises for properties within the Scheme's new caps.[1]

Cohorts impacted by the Scheme

We identify three cohorts who have been most impacted by the Scheme's 2025 expansion. The experience of these cohorts demonstrates the Scheme is not achieving its policy goals.

The primary cohort is first home buyers who have accessed the Scheme since its expansion. A significant proportion of these have skewed toward higher-income borrowers (i.e. with incomes above the Scheme's previous caps).[2] We note that these higher-income households would have entered the housing market in any case and that their housing demand was simply brought forward, at the expense of the taxpayer, rather than newly created as a result of Scheme access.

With Australia's housing market showing signs that it may be softening, first home buyers who used the expanded Scheme and bought at record-high prices, may be at risk of negative equity. Additionally, in a difficult macroeconomic environment these households are increasingly likely to be subject to sustained, elevated interest rates on top of the historically high property prices at which they bought. The outcome of this combination is increased mortgage stress. Mortgage stress requires tough household spending decisions, leading to fewer savings and reduced economic resilience.

The Scheme is likely distorting household borrowing decisions. By reducing the price signal associated with credit risk, the Scheme may encourage households to assume higher leverage than they otherwise would. The cost of LMI, which prices the risk of the loan, encourages prudent borrower behaviours through better consideration of the default risk associated with their purchase. While individual households may welcome free products, it is important that policymakers consider the economic value of user charging, which can encourage greater consideration of financial resilience implications. Higher household indebtedness makes households more vulnerable to economic shocks. This is particularly the case for lower-income borrowers at the early stages of their career, who have less financial resilience to cope with the unexpected. For these borrowers, the effects can be prolonged, constraining future consumption and labour mobility.

Under scenarios where young households are forgoing disposable income to meet mortgage repayments, encouraged by policies such as the Scheme, Australia loses the economic activity of household consumption to mortgage repayments. Reduced purchasing power and lower consumption does not just mean fewer clothes or groceries but less investment in themselves, their home, businesses, and the broader economy. Importantly, reduced consumption can materialise as underinsurance of the family home or other assets.

In the unfortunate situation where unemployment spikes and mortgage defaults rise, where households have used the Scheme instead of LMI, the Government balance sheet will realise these losses instead of financial system. Losses realised on the Government balance sheet are socialised among all taxpayers, while the defaulting households the Scheme was designed to help end up without the property ownership intended to support. Further, in the event of an economic downturn or a recession, there would be broader and increased calls on government spending as reliance on social welfare rises. The risk is that the Government's capacity to boost productivity and stimulate economic growth is diminished precisely when it is needed most.

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[1] Cotality. 2026. First home buyer scheme fuels surge in lower-priced homes.
[2] We note reporting in *the Guardian* (Ittimani, 2026) highlighting the increased use of the Scheme by wealthier first home buyers.

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The second cohort to consider is property-owning households selling into the housing market at elevated prices, where those properties fall below the Scheme's price caps. This cohort is not the target of the Scheme, yet it captures some of the greatest benefits from the inflationary pressure the Scheme adds to property prices that fall below the caps. These households, including investors, upgraders and other households the Scheme is not intended to support, are among the biggest winners, with the Government effectively underwriting a transfer of wealth to them.

The final cohort to consider are lower socioeconomic households seeking to enter the property market. This is the cohort the Scheme was originally designed to support through targeted income and property price caps. The expanded Scheme has driven up property prices below its price caps, likely pricing out the very households it was designed to help. We acknowledge that the housing market is showing signs of cooling but this is after a particularly long cycle, including until only very recently, of rising house prices. Whether true affordability is achieved remains to be seen. Alternatively, some households in this cohort may be pushed toward more affordable locations, including regions with greater climate risk.[3] For these households, relocation can mean greater distance from established labour markets and reduced access to employment suited to their skills and experience. Essential workers, who have historically made up a significant portion of Scheme users, are particularly affected, as they have a genuine need to live in locations close to their place of work. Moreover, by placing upwards additional demand-side pressure on 'entry level' houses prices, the Scheme may reduce labour mobility and worsen job matching, particularly for lower- and middle-income workers seeking to live near employment opportunities. These frictions can weigh on productivity by making it harder for workers to move to where they are most needed.

Looking at these impacts in their totality demonstrates that the Scheme reallocates capital toward existing assets rather than productive investment. When policy settings encourage greater borrowing capacity for existing housing stock, economic resources are directed toward bidding up asset values rather than investment that expands productive capacity, such as business investment, innovation, skills or infrastructure.

Capital treatment

Beyond impacted cohorts, we note regulatory imbalances that further call into question any suggested productivity benefits of the Scheme.

Despite the difference in protection offered to lenders by LMI and the Scheme, loans insured by LMI attract less favourable capital treatment for Authorised Deposit Taking Institutions (ADIs) compared to those guaranteed under the Scheme. Table 1 below demonstrates the discrepancy between LMI (under APRA's Standardised Approach APS112 for capital adequacy) and the HGS and how this results in different capital requirements for a $600k property at a 95% LVR (i.e., 5% deposit, $570k loan).

	No LMI	LMI	5% Deposit Scheme
Variance to standard risk weight (70%)	0%	-15%	-35%
Risk weight	70%	55%	35%

[3] Cheap land is often high-risk land, and too often it's vulnerable Australians who are living in areas where climate risk is high, as are insurance premiums. Analysis by the ICA on flood finds that approximately 35% of households exposed to the highest flood risk are in areas where the median income is below the poverty line.

Applied to a $600k property at 95% LVR:			
Capital held by bank[1]	$45,885	$36,053	$22,943
Capital held by LMI provider[2]	$0	$16,956	N/A
Total capital supporting loan	**$45,885**	**$53,009**	**$22,943**

Table 1: APRA risk weightings.

1. Assumes bank holding capital at 11.5% of risk weighted assets
2. Based on LMI regulatory capital requirements for insurance risk

This difference in regulatory treatment does not reflect the relative risk to lenders. Further, these regulatory settings place LMI at a competitive disadvantage to the Scheme. This competitive disadvantage is compounded by the fact that the Scheme is offered free to first home buyers via their lender whereas users of LMI must pay.

Private market impacts

In practice, these settings, in combination with the lack of user charge associated with the Scheme, are having a deleterious impact on the lenders mortgage insurance industry as a major part of its premium base in first home buyers is drawn instead to a free government competitor.

Given these competitive dynamics, we believe the Scheme weakens competitive neutrality, although we note the Scheme avoids competitive neutrality discussions through its lack of user charging. Productivity is supported when private markets can allocate capital, price risk and innovate efficiently. Where government provides a free guarantee that substitutes for a functioning private market, resources may be allocated less efficiently and investment incentives weakened.

The market distortion and crowding out of the private market the Scheme produces effectively weakens market-based discipline and productive investment. The full implications of this could include reduced innovation in the financial services industry and particularly with regard to high LVR lending.

Additionally, the uncompetitive market, uneven capital treatment and other Scheme features such as lender pricing requirements can discourage private sector innovation, particularly in high LVR lending

LMI gives lenders confidence to lend to households at higher LVRs. Lenders' mortgage insurers provide investment elsewhere through the economy. In conclusion, we are concerned that Government policy is directly contributing to the significant disruption of an otherwise productive industry that plays an important role in housing market transactions as well as second order productivity and financial resilience implications for some households and the broader economy.

The Insurance Council welcomes the opportunity to further assist the Committee with its inquiry. If you have any queries, please contact Eamon Sloane, Senior Adviser Strategic Policy at esloane@insurancecouncil.com.au.

Regards

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