

Ms Kate Preston
Manager, Financial Systems Division
Markets Group
The Treasury
Langton Crescent
PARKES ACT 2600

23 February 2011

Dear Ms Preston

COMPETITIVE AND SUSTAINABLE BANKING PACKAGE: LENDERS MORTGAGE INSURANCE (LMI) ISSUES

The Insurance Council of Australia¹ (Insurance Council) appreciated the opportunity that its LMI Committee had to meet you and Phillip Hawkins on 16 February 2011 in order to discuss the Government's consideration of LMI issues in the context of the broader banking competition reforms announced in December 2010.

On behalf of the members of the LMI Committee, I would like to reiterate the industry's willingness to engage on this issue and the commitment of members to work closely with Treasury over the coming weeks to formulate a solution to the perceived problem of LMI portability that meets the goals and objectives of stakeholders.

At the meeting, members invited Treasury to provide the Committee with a detailed list of information it may need concerning LMI. If you do have any such information requests or questions, please forward them to John Anning, the Insurance Council's General Manager Regulatory Directorate (see below for contact details).

At the meeting we also discussed, at a high level, the size and scale of the LMI portability issue. We would like to offer the following perspective:

- Approximately 20% of all mortgages are currently insured with an LMI provider;
- Of those insured mortgages, approximately 30% are refinances; and
- Of those 30% of loans that are insured which are for refinance purposes, approximately 10% are "dollar for dollar" and do not involve some element of increased risk or equity withdrawal on the part of the borrower.

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. September 2010 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$33.8 billion per annum and has total assets of \$101.5 billion. The industry employs approx 60,000 people and on average pays out about \$86 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Taking those considerations into account, it would appear that this issue affects less than 1% of all mortgages currently originated in Australia.

Given Treasury's tight timetable in respect of this initiative, we look forward to hearing from you at the earliest opportunity on the next steps in your review. We confirm that should Treasury wish to engage with industry at a deeper level in relation to the question of a standardised industry refund scheme, we would require Treasury's support in an approach to the ACCC to facilitate those discussions.

If you would like to discuss further any of the matters raised in this submission, please contact Mr Anning tel: 02 9253 5121; email: janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director & CEO