

Press release

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Joint Forum releases final paper on mortgage insurance

The Joint Forum released today its final report on Mortgage insurance: market structure, underwriting cycle and policy implications.

The events of the last few years, particularly those in the global financial crisis that began in 2007, demonstrate that mortgage insurance is subject to significant stress in the worst tail events. This report examines the interaction of mortgage insurers with mortgage originators and underwriters. It makes the following set of recommendations directed at policymakers and supervisors which aim at reducing the likelihood of mortgage insurance stress and failure in such tail events:

1. Policymakers should consider requiring that mortgage originators and mortgage insurers align their interests;
2. Supervisors should ensure that mortgage insurers and mortgage originators maintain strong underwriting standards;
3. Supervisors should be alert to – and correct for – deterioration in underwriting standards stemming from behavioural incentives influencing mortgage originators and mortgage insurers;
4. Supervisors should require mortgage insurers to build long-term capital buffers and reserves during the troughs of the underwriting cycle to cover claims during its peaks;
5. Supervisors should be aware of and take action to prevent cross-sectoral arbitrage which could arise from differences in the accounting between insurers' technical reserves and banks' loan loss provisions, and from differences in the capital requirements for credit risk between banks and insurers;
6. Supervisors should be alert to potential cross-sectoral arbitrage resulting from the use of alternatives to traditional mortgage insurance; and
7. Supervisors should apply the FSB Principles for Sound Residential Mortgage Underwriting Practices to mortgage insurers noting that proper supervisory implementation necessitates both insurance and banking expertise.

The Joint Forum based its recommendations on an analysis of existing mortgage underwriting standards and the underwriting cycle.

Thomas Schmitz-Lippert, Chairman of the Joint Forum and Executive Director International Policy at the German Federal Financial Supervisory Authority, BaFin, said: "Mortgage origination and mortgage insurance were at the very core of the financial crisis. The Joint Forum Recommendations on Mortgage Insurance provide guidance to national policymakers and supervisors in order to avoid mistakes of the past and strengthen resilience in the future."

An earlier version of this report was [issued for consultation](#) in February 2013. The Joint Forum wishes to thank those who provided feedback and comments as these were instrumental in revising and finalising the report and its recommendations.

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The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.