

The Joint Forum
Bank for International Settlements
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Chris Barnard
Germany

15 April 2013

**Your Ref: Comment letter on Consultative Document
- Mortgage insurance: market structure, underwriting cycle and
policy implications**

Dear Sir.

Thank you for giving us the opportunity to comment on your Joint Forum consultative document on Mortgage insurance: market structure, underwriting cycle and policy implications.

The Joint Forum (BCBS, IOSCO and IAIS) is proposing recommendations for policymakers and supervisors that aim to reduce the likelihood of mortgage insurance stress and failure in tail events. I welcome these recommendations, which address the interactions between mortgage insurers and lenders (originators and underwriters). The recommendations should improve the fair functioning of the mortgage insurance market and reduce systemic risk. However, the recommendations do not directly address one of the key distortions that hinders the fair functioning of the private mortgage insurance market; that is the distribution-compensation model, which underlies the relationship between mortgage insurer and lender and creates harmful competition between mortgage insurers.

Addressing the key distortion in the private mortgage insurance market

Mortgage insurance is unusual in that the borrower pays the insurance premium, but the lender is the policy beneficiary. Furthermore, the lender has significant market power and can demand/extract commission or other sales incentive in return for recommending or selecting a specific mortgage insurer. This bundled distribution and lending model contains significant distortions and potential conflicts of interest: in some markets the lender can bundle the granting of a mortgage together with its preferred mortgage insurer; the lender

Please note that the comments expressed herein are solely my personal views

can choose the mortgage insurer offering the greatest commission or other sales incentive; and the mortgage insurer will often compete on this basis, to the detriment of its underwriting standards and controls.

Therefore I would recommend that this key distortion should be specifically addressed within the recommendations. I would recommend that lenders should be prohibited from receiving any commission or other sales incentive for the act of distributing mortgage insurance; likewise, mortgage insurers should be prohibited from providing any commission or other sales incentive to lenders that distribute their mortgage insurance products. This will promote the alignment of interests of mortgage insurers and lenders towards fairly distributed and fairly priced mortgage insurance products.

Yours faithfully

A handwritten signature in black ink that reads "C.R. Barnard". The signature is written in a cursive, slightly slanted style.

Chris Barnard