# Arch Mortgage Insurance

## Information about Arch Mortgage Insurance

Arch capital group LTD company overview.

Provides a snapshot of the company along with details for some of the key people involved

<https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=346919>

A recent deal was completed by Arch with a subsidiary of ING Bank. The transaction was for a portfolio of residential mortgage assets with the aim of providing capital relief. It is mentioned that this is the first transaction of its kind within the European mortgage market. Also a guarantee scheme for mortgage loans already exists in Holland so it makes sense that ING Bank would be comfortable to go with mortgage insurance.

<https://www.businesswire.com/news/home/20181026005051/en/Arch-Mortgage-Insurance-dac-Completes-First-of-its-kind-Capital>

<https://seekingalpha.com/news/3401834-arch-mortgage-insurance-dac-completes-capital-relief-transaction>

PMI Mortgage insurance company LTD – looks very similar to Arch capital group LTD

<https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=7281045>

Arch capital bought a chunk of the PMI mortgage insurance business that went bankrupt in 2013. Article also shows that Arch have a few interesting investors (Bill Gates). It is the view of market participants that fewer competitors could make conditions for writing business better.

<https://www.ft.com/content/379c04b4-63f5-11e6-8310-ecf0bddad227>

## History of the market

<Future work>

Review by countries that have made use of the product.

Some of the articles below have some details on;

1. Countries
2. Level of insurance coverage
3. Level of losses experienced

## EBA guidelines

Significant risk transfer:

<https://www.eba.europa.eu/documents/10180/1963391/Discussion+Paper+on+the+Significant+Risk+Transfer+in+Securitisation+%28EBA-DP-2017-03%29.pdf/228098e3-29ba-473f-9e4c-680ce32e1869>

There are some case study examples in the appendix, with case study 2 looking very similar to what Arch were presenting. SRT is granted by competent authorities on the basis of a transaction-by-transaction assessment; I wonder does the CBI currently have a team in place to complete this assessment. Document outlines that many market participants that have dealt in securitisations to date for credit risk transfer would like to give the competent authority one month to review the transaction before it comes into effect.

Unfunded synthetic securitisation:

<https://medium.com/@eif4smes/seven-myths-of-synthetic-securitisation-32067422b5b>

There appears to be a market out there for the products, its just about trying to figure out if it works

## Other research relating to Mortgage Insurance

Some of the research has emanated from older periods for mortgage insurance. However it appears that the product is becoming more relevant again. Mortgage insurance first appeared in the USA during the 1950’s. The main aim was to provide cover for default risk and therefore encourage financial institutions to provide mortgage loans to high LTV customers i.e. first time buyers. One of the caveats for this product in the USA appears to be that the mortgage insurance is a requirement for Government Sponsored Enterprises (GSEs).

The mortgage insurance industry almost collapsed during 2008 due to the default risk that the catastrophe cover was aiming to provide for.

Genworth: <http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/GHFC_2021_Alejandro_Rivero_Andreu.pdf>

* Specialises in providing mortgage insurance
* Gives a brief history of the industry
* Provides rhetoric for how MI can be used

GE mortgage insurance

<http://www.oecd.org/finance/financial-markets/1843983.pdf>

* Presentation giving a brief overview of all the details relating to mortgage insurance
* Size of their market presence by country
* Benefits of what mortgage insurance can do to help banks generate and maintain more business
* GE also had analytical services/products which they were able to provide to customers who wanted to avail of the end-to-end credit lifecycle pieces

CBI view from 2015 on mortgage insurance industry:

<https://www.centralbank.ie/docs/default-source/publications/economic-letters/economic-letter---vol-2015-no-5.pdf?sfvrsn=10>

Performed a review of how mortgage insurance has worked in other countries. The analysis was completed during 2015 and provides some cross-over with the introduction of the macro prudential rules for new lending. For mortgage insurance to work there has to be buy-in from local government and supervisors. Tricky challenge is that the aim of the product is to help customers with high LTVs gain access to credit but the cost of this has to ultimately be passed on to the borrower in higher borrowing costs. Therefore if it is not a legal requirement to have mortgage insurance then customers will tend to go to the lender with cheaper rates. Although within an Irish context the CBI rules on exemptions would have to be lifted before anything like this could happen. Unless supervisor rules have changed due to new regulations I don’t see them changing their views since this paper.

Basel paper on “Mortgage insurance: market structure, underwriting cycle and policy implications”

<https://www.bis.org/publ/joint30.pdf>

This paper was used to represent “the forum” aspect that was seen within the CBI paper that preceded this.

* Mortgage originators and insurers should align their interests
* Supervisors should have oversight of underwriting standards of both mortgage originators and insurers
* Supervisors should request mortgage insurers to retain appropriate levels of capital to cover future losses
* Supervisors should understand the relationship between
  + Insurers accounting standards
  + Banks loan loss provisioning
  + Banks regulatory capital standards
* Annex B provides an overview of the mortgage insurance market by each country:
  + United States
  + UK
  + France – guarantee scheme protects against a lot of potential losses
  + Netherlands
  + Australia
  + Canada

Dutch pension funds investing in the mortgage debt market to earmark larger returns for their schemes:

<https://www.ipe.com/countries/netherlands/dutch-pension-funds-to-increase-mortgage-investments/www.ipe.com/countries/netherlands/dutch-pension-funds-to-increase-mortgage-investments/10022953.fullarticle>