PRESS RELEASE

CMF Chairman Joaquín Cortez spoke before the Senate's Committee on Finance about legislation that sets new requirements for market agents

Chairman Cortez argued that the proposal to introduce co-financing of mortgage and loan-related insurance would have a negative impact on the financial inclusion of lower-income segments.

October 28, 2020 – Joaquín Cortez, Chairman of the Financial Market Commission (CMF), spoke today before the Senate's Committee on Finance regarding the bill that establishes new transparency requirements and responsibilities for market agents. In his presentation before the Committee, Chairman Cortez discussed some of the amendments incorporated to the initiative during its legislative process. One of them is a proposal to establish co-financing between debtors and financial institutions for insurance associated to mutual mortgage and consumer loans. Said co-financing would be applied both to new loans and to the current loan stocks in the portfolio of financial institutions.

According to Cortez, in the case of the current stock of loans, this measure would mean an increase in the cost for financial entities that was not considered at the time of granting the loan. Such an increase would be especially critical in the case of mortgage loans, where the interest rate remains fixed for an extended period. Regarding new loans, he stated that a part of the insurance's cost would be shifted to the interest rate, increasing the loan's overall cost.

"This could mean negative impacts on financial inclusion and banking access, especially for lower-income segments whose credit risk is not covered by the Maximum Conventional Rate (TMC, for its Spanish acronym)," said Cortez. Regarding this issue, he added that considering an increase in interest rates equal to 50 percent of the insurance premium cost, and taking as a base the cost of a standard insurance for surviving dependents, the proposal would increase the cost of mortgage loans by 11.1 percent and consumer loans by 11.9 percent.

With the above assumptions, Chairman Cortez estimated that at an aggregate level 12.6 percent of operations in installments would be restricted for exceeding the current TMC in force. This figure is of 236,000 loans over 12 months.

Cortez also underlined that interest rates in loans reflect, among other factors, the risk of the loans themselves. "By taking out insurance, potential risks of non-payment due to the occurrence of some type of loss (death, fire, unemployment, among others) are mitigated and, therefore, both the risk and the interest rate drop." The Chairman also argued that the proposal contrasts with the positive results in terms of coverage and price reduction resulting from the application of the insurance tender scheme for mortgage loans in force since 2012.

Nevertheless, Joaquín Cortez suggested the possibility of making some improvements to the tender scheme for loan-related insurance, like restricting collection fees by lending institutions during the tender process and later, while the insurance is active.

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