Financial Services Commission
MAURITIUS

FINANCIAL SERVICES COMMISSION

GUIDELINES FOR MORTGAGE UNDERWRITING PRACTICES AND PROCEDURES

Issued on 13 May 2021

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1 Purpose and Scope of these Guidelines

1.1 These Guidelines for Mortgage Underwriting Practices and Procedures (the "Guidelines") set out the expectations of the Financial Services Commission (the "Commission") for prudent mortgage underwriting, and are applicable to all insurers that are engaged in mortgage underwriting and/or the acquisition of mortgage loan assets. These Guidelines complement the relevant provisions of the Insurance Act, as well as, any Regulations and Rules made by the FSC thereunder or any other relevant Acts as defined in the Financial Services Act.

1.2 These Guidelines articulate five fundamental principles for sound mortgage underwriting:

1.3 The first principle relates to insurers' governance and the elaboration of overarching business objectives, strategies and the development of oversight mechanisms in respect of mortgage underwriting and/or the acquisition of mortgage loan assets.

1.4 The next three principles focus on the mortgage credit decision and the underwriting process, specifically the assessment of:

- (a) The borrower's identity, background and willingness to service its debt obligations on a timely basis (Principle 2);
- (b) The borrower's capacity to service its debt obligations on a timely basis (Principle 3); and
- (c) The underlying property value/collateral and management process (Principle 4).

1.5 These above-mentioned three principles should be evaluated by lenders through a holistic and risk-based approach unless otherwise specified in these Guidelines. The borrower's willingness and capacity to service its debt obligations on a timely basis should be established and should be an important element of a lender's mortgage decision. Undue reliance on collateral can pose challenges as the process to obtain title to the underlying mortgaged property can be costly to the lender.

1.6 The fifth principle addresses the need for mortgage underwriting and purchasing to be supported by effective credit and counterparty risk management including, where appropriate, mortgage insurance or reinsurance. The final section of these Guidelines summarises disclosure and supervisory requirements.

1.7 Insurers are expected to demonstrate compliance with these Guidelines to the Commission and they should expect verification from the Commission that their mortgage operations are well supported by prudent underwriting practices, and that they have sound risk management and internal controls that are commensurate with these operations.

1.8 These Guidelines are issued under section 7(1) (a) of the Financial Services Act and section 130(2) of the Insurance Act.

2 Interpretation

2.1 In these Guidelines,

(a) “Commission” has the same meaning as in the Financial Services Act;

(b) “Conservator” has the same meaning as in the Transcription and Mortgage Act;

(c) “Controller” has the same meaning as in the Financial Services Act;

(d) “Credit risk” means the risk of credit loss that results from the failure of a borrower to honour the borrower’s credit obligation to the insurer;

(e) “Corporation” has the same meaning as in the Financial Services Act;

(f) “Registration of Deeds and Documents System” has the same meaning as in the Registration Duty Act;

(g) “Insurer” has the same meaning as in the Insurance Act;

(h) “Prudent” in respect of an insurer means the exercise of careful and practical judgment that would be exercised by a knowledgeable person in the financial services industry, having regard to:

(i) the objectives of the financial institution;

(ii) all risks to which the financial institution is exposed, including credit risk; and

(iii) the amount and nature of the financial institution’s capital;

(i) “MCIB” means the Mauritius Credit Information Bureau established under the Bank of Mauritius Act;

(j) “Mortgage”:

(i) is equivalent to “hypothèque” as established under the Code Napoléon; and

(ii) includes any loan or syndicated loan that is secured by residential and/or commercial property for the purpose of acquisition or refinancing of land and/or construction of building;

(k) “Property” includes land and/or building;

(l) “Registrar of Companies” means the Registrar of Companies appointed under the Companies Act;

(m) “DTI (debt-to-income) ratio” is the percentage of a borrower's monthly gross income that goes towards paying his monthly total debt obligations.

(n) “Lending institution” has the same meaning as in the Borrower Protection Act.

Effective date

These Guidelines shall come into effect as from 01 July 2021.

3 Principles

Principle 1

Insurers that are engaged in mortgage underwriting and/or the acquisition of mortgage loan assets should have a comprehensive Mortgage Underwriting Policy ("MUP") approved by the Board of Directors (the "Board"). Mortgage practices and procedures of insurers should comply with their established MUP.

3.1 Mortgage Underwriting Policy

3.1.1 The MUP shall provide:

(a) the risk appetite statement and risk tolerance level for mortgage activities as per the Insurance (Risk Management) Rules 2016;

(b) the level of risk that the insurer is willing to accept together with corresponding limits;

(c) the maximum DTI ratio to set prudent measures for debt serviceability and calculate each borrower's debt serviceability ratios for the purposes of assessing affordability;

(d) the maximum amortization period for mortgages underwritten; and

(e) the maximum Loan-to-Value ("LTV") Ratio.

3.1.2 The MUP shall reflect the size, nature and complexity of an insurer's mortgage business and should give due consideration to factors and metrics such as:

(a) insurer's business strategy;

(b) risk management practices and processes with respect to mortgage loans and loan assets, including limits on relevant segments or parameters (for e.g. lending, acquisition, product, borrower/property characteristics, and geographic concentration) at the portfolio level;

(c) acceptable underwriting and acquisition standards, criteria and limits (for e.g. credit scores, loan-to-value ratios, debt service coverage, amortization periods) for all mortgage products and loan types (for e.g. conforming and non-conforming) at the individual mortgage loan level;

(d) appropriate MUP to distinguish between residential and commercial mortgages depending on portfolio mix, size, and complexity;

(e) identification and escalation processes for mortgage underwriting and/or acquisition exceptions, if any, including a process for approval and exception reporting;

(f) limits on any exceptions to mortgages underwritten and/or acquired;

(g) the roles and responsibilities for those positions charged with overseeing and implementing the MUP; and

(h) levels of authority to approve mortgages.

3.2 Internal Controls, Monitoring and Reporting

3.2.1 The Board shall:

(a) select and appoint a qualified and competent management, herein referred to as Senior Management, to administer the MUP and coordinate all responsibilities with any sub-committee as set up under section 38 of the Insurance Act, if applicable;

(b) revisit the MUP on at least an annual basis to ensure that there is strong alignment between risk appetite statement and actual mortgage underwriting, acquisition, and risk management policies and practices;

(c) clearly specify and document delegation of mortgage approval authority to management personnel and committees taking into consideration the type, size of mortgage, the types of risks to be assessed, and the experience and competence of individuals;

(d) provide high-level guidance to, and have oversight of, Senior Management with respect to matters relating to mortgage underwriting and portfolio management;

(e) review all significant delinquent mortgage loans and management action taken for the recovery of these loans;

(f) approve any major departures from established policies and procedures;

(g) review mortgage loans granted to or guaranteed by related party, and review the insurer’s policy related to such mortgages;

(h) ensure that an insurer’s remuneration policy is in line with the MUP and does not reward imprudent activities of management;

(i) ensure that staff who are engaged in the mortgage line of business comply with every requirement imposed on them through these Guidelines;

(j) ensure that the auditor, appointed under section 40 of the Insurance Act, reviews and reports to the Board on compliance with these Guidelines at least once a year;

(k) set up adequate processes in place to independently and objectively:

  (i) identify, assess and analyse the key risks;

  (ii) monitor risk exposures against the approved risk appetite statement and risk tolerance level as per the Insurance (Risk Management) Rules 2016 taking into account the capital base of the insurer, a prudential assessment of the insurer’s ability to absorb losses, the financial health of their existing mortgage portfolio, the diversification of the portfolio, and the insurer’s business plan; and

  (iii) establish and utilise effectively a system to monitor and control the nature, composition, and quality of the mortgage portfolio and to ensure that the portfolio is conservatively valued.

(l) implement a Mortgage Management Information System (“MMIS”) which:

(i) tracks the evolving circumstances of a mortgage, repayments regularity, borrower’s financial condition, continuing value of the security and other attributes of the mortgage; and

(ii) tracks mortgage by portfolio characteristics including single and associated groups of borrowers, types of mortgage facilities, industry sectors and geographical regions.

(m) install adequate internal controls covering the entire mortgage spectrum including segregation of activities between the persons responsible for analysis, authorisation and execution of mortgage transactions and those responsible for their monitoring; and in the case of impairment, their follow-ups, and the establishment of an appropriate internal rating system for individual mortgages;

(n) implement an appropriate management reporting system covering the content, format and frequency of information to the Board concerning the insurer’s credit risk position to permit sound and prudent analysis and control of existing and potential credit risk exposures;

(o) prepare an exception report which *inter alia* includes the identification of patterns, trends or systemic issues within the mortgage portfolio that may impair loan quality or risk mitigation factors; and

(p) establish an effective internal audit function to review and assess the risk management activities which will provide assurance to the Board that mortgage activities are in compliance with the MUP, the insurer’s established policies and procedures, as well as, with the laws of Mauritius.

3.2.2 Senior Management shall:

(a) develop and implement the MUP and related controls;

(b) seek the Board’s approval for any material exception to policies and controls related to mortgages that are under its monitoring;

(c) provide timely, accurate, independent and objective reporting on the related risks of the mortgage business including the procedures and controls in place to manage the risks, particularly default risk, and the overall effectiveness of risk management processes (including effectiveness of the MUP) to the Board;

(d) apprise on a regular basis of the evolving balance of allowance for credit losses relating for non-performing mortgages to the Board;

(e) submit to the Board of Directors, at a frequency to be decided by the Board but not less than once every six months, comprehensive written reports dealing with as a minimum:

(i) significant mortgage activities of the insurer and the composition and quality of the mortgage portfolio;

(ii) significant mortgage exposures which are outstanding;

(iii) significant impaired mortgage, their current status and recovery prospects;

(iv) mortgage transactions undertaken that are not in accordance with the MUP including delegated approval authorities, giving reasons for departure and outlining initiatives planned by Management to curtail repetition of such transactions;

(v) mortgages granted to, or guaranteed by, related party including the insurer's policy related to such mortgages; and

(vi) trends in portfolio quality and the level of diversification, and an analysis of emerging problems and remedial actions contemplated.

3.3 Mortgage Underwriting Declaration

3.3.1 The Chief Executive Officer or other delegated senior officer of an insurer should make an annual declaration in writing to the Board confirming that the insurer's mortgage underwriting and acquisition practices and associated risk management practices and procedures meet, except as otherwise disclosed in the declaration, the standards set out in these Guidelines.

3.3.2 In the event of a deviation from these Guidelines, the nature and extent of the deviation, and the remedial measures taken or proposed to be taken to mitigate the risk associated with the deviation, should be documented and disclosed to the Board and to the Commission in full.

Principle 2

Insurers should perform reasonable due diligence to record and assess the borrower's **identity, background** and **willingness** to service their debt obligations on a timely basis.

3.4 Background and Credit History of Borrower

3.4.1 Insurers should ensure that reasonable enquiries are made into the background, credit history and borrowing behaviour of a prospective mortgage loan borrower as a means to establish the borrower's reliability to repay a mortgage loan.

3.4.2 Insurers should make the necessary enquiry from the MCIB and the Conservator in line with their terms and conditions to assess the customer's ability to meet obligations.

3.4.3 Insurers should also ensure that appropriate borrower's consent is obtained for this assessment and comply with relevant legislations such as Data Protection Act governing the use and privacy of personal information.

3.4.4 Insurers should verify the constitutive documents of a corporation and their current status.

3.5 Loan Documentation

3.5.1 Insurers should set out the pre-qualification screening criteria which would act as a guide for their officers to determine the types of mortgages that are acceptable to the insurer. The criteria, for instance, may include rejecting applications from blacklisted customers. These criteria would help institutions avoid processing and screening applications that would be later rejected.

3.5.2 Insurers should design a comprehensive mortgage application form and checklist that are sufficiently detailed to ensure that all relevant information needed for the initial assessment are readily available.

3.5.3 Consequently, insurers should maintain complete documentation of the information that led to a mortgage approval. This should generally include:

(a) A description of the purpose of the loan;

(b) Employment status and verification of income (see Principle 3);

(c) DTI ratio calculations including verification documentation for key inputs (e.g., taxes and other debt obligations);

(d) LTV ratio, property valuation and appraisal documentation (see Principle 4);

(e) Report from the MCIB, the Conservator and any other credit enquiries;

(f) Documentation verifying the source of the down payment;

(g) Purchase and sale agreements, and other collateral supporting documents;

(h) An explanation of any mitigating criteria or other elements (e.g. “soft” information) for higher risk factors;

(i) Property insurance agreements;

(j) A clearly stated rationale for the decision (including exceptions);

(k) Copy of building permit; and

(l) Estimate of the construction costs.

3.5.4 When an application is made by a corporation, insurers should review up-to-date information on the borrower encompassing:

(a) latest audited financial statements and management accounts;

(b) details of customers’ business plans and any changes brought thereto;

(c) financial budgets and cash flow projections;

(d) any relevant board resolutions for corporate customers; and

(e) particulars of promoters, beneficial owners, controllers and directors.

3.5.5 The above documentation should be obtained at the origination of the mortgage and for any subsequent refinancing of the mortgage. Insurers should update the borrower and property analysis periodically (not necessarily at renewal) in order to effectively evaluate credit risk. In particular, insurers should review some of the aforementioned factors if the borrower’s condition or property risk changes materially.

3.5.6 As a general principle, an independent third-party conducting a credit assessment of an insurer’s mortgage loan should be in a position to replicate all aspects of the underwriting criteria, based on the insurer’s MUP, to arrive at the resulting mortgage decision.

3.5.7 For security reasons, insurers should consider keeping only the copies of critical documents (i.e. those of legal value, facility letters, and signed loan agreements) in mortgage files while retaining the originals in a more secure custody. Mortgage files should also be stored in fire-proof cabinets and should not be removed from the institution's premises.

3.5.8 Insurers should maintain a checklist which can demonstrate that all their policies and procedures ranging from receiving the mortgage application to the disbursement of funds have been complied with. The checklist should also include the identity of individual(s) and/or committee(s) involved in the decision-making process.

3.6 Disbursement

3.6.1 In respect of acquisition of property, the cheque representing the loan disbursement shall be drawn in favour of the notary responsible for the sale deed.

3.6.2 With respect to property to be constructed or under construction, insurers should ensure that disbursement are effected in tranches subject to satisfactory progress report.

3.6.3 Insurers shall ensure that security documents are registered with Registration of Deeds and Documents System prior to any disbursement.

3.7 Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”)

3.7.1 As part of an insurer’s assessment of the borrower, if the insurer is aware, or there are reasonable grounds to suspect that the mortgage loan transaction is being used for illicit purposes, then the insurer should decline to disburse the loan and consider filing a suspicious transaction report to the Financial Intelligence Unit in line with sections 3(2) and 3(3) of the Financial Intelligence and Anti-Money Laundering Regulations 2018 (“FIAML Regulations 2018”).

3.7.2 In order to detect and deter the possible use of a mortgage to launder the proceeds of crime or assist in terrorist financing, insurers should ensure that mortgage loans are subject to the requirements of:

(a) the Financial Intelligence and Anti-Money Laundering Act (“FIAMLA”); and

(b) FIAML Regulations 2018.

3.7.3 In particular, insurers should comply with the AML/CFT obligations under the FIAMLA, the FIAML Regulations 2018, including but not limited to, customer due diligence process and record keeping requirements, and also ensure that they obtain sufficient information about the borrower to determine whether the latter is a high-risk customer.

3.8 Misrepresentation

3.8.1 Insurers should maintain adequate mechanisms for the detection, prevention and reporting of all forms of fraud or misrepresentation (e.g. falsified income documents) in the mortgage underwriting process.

Principle 3

Insurers should adequately assess the borrower's capacity to service its debt obligations on a timely basis.

3.9 Income Verification

3.9.1 Insurers should demonstrate rigour in the verification of a borrower's income. This includes substantiation of a borrower's:

(a) Employment status; and

(b) Income history (e.g. through bank statements).

3.9.2 With respect to the borrower's down payment for mortgages, insurers should determine if it is sourced from the borrower's own resources or savings. Where part or all of the down payment is gifted to a borrower, it should be accompanied by a letter from those providing the gift confirming no recourse will be made from the gift provider to the borrower. Where non-traditional sources of down payment (e.g. borrowed funds) are being used, further consideration should be given for greater risk mitigation. Incentive and rebate payments (i.e. cash back) should not be considered part of the down payment.

3.9.3 For borrowers who are self-employed, insurers should also be guided by the sound principles listed above. In particular, insurers should obtain proof of income and relevant business documentation.

3.9.4 Insurers should also exercise rigorous due diligence in underwriting loans that are materially dependent on income derived from the property to repay the loan (e.g. rental income derived from an investment property).

3.9.5 Income that cannot be verified by reliable and well-documented sources should be treated cautiously when assessing the ability of a borrower to service debt obligations.

3.10 Guarantors and Co-signors of Mortgages

3.10.1 Where an insurer obtains a guarantee or when a co-signor is supporting the mortgage, it should also undertake a sufficiently rigorous mortgage assessment of the guarantor/co-signor. This assessment should be commensurate with the degree to which the guarantor/co-signor's support is relied upon.

3.11 DTI ratio

3.11.1 The Commission expects the DTI ratio for all mortgages underwritten and/or acquired to be less than the insurer's stated maximum, as articulated in its MUP, and reflects a reasonable distribution across the portfolio.

3.11.2 Insurers should have clear policies with respect to the contributing factors for the calculation of the DTI ratio, including, but not limited to:

(a) Principal and interest payments on the mortgage loan;

(b) Primary and other sources of income; and

(c) Payments for all other credit facilities granted by lending institutions (e.g. unsecured personal loan, second mortgage loan, credit card).

3.11.3 The DTI ratio should be calculated conservatively (i.e. appropriately stressed for varied financial and economic conditions and/or higher interest rates).

3.12 Additional Assessment Criteria

3.12.1 In addition to income and debt service coverage, insurers should take into consideration, as appropriate, other factors that are relevant for assessing credit risk such as the borrower's assets and liabilities (net worth), other living expenses, recurring payment obligations (for example through searches from the Conservator of Mortgages, Mauritius Revenue Authority, etc…), and alternate sources for loan repayment.

3.12.2 To the extent possible, income assessments should also reflect the stability of the borrower's income, including possible negative outcomes (e.g., variability in the salary/wages of the borrower). Conversely, temporarily high incomes (e.g., overtime wages, irregular commissions and bonuses) should be suitably normalised or discounted.

3.13 Amortization

3.13.1 The Commission expects the average amortization period for mortgages underwritten to be less than the insurer's stated maximum, as articulated in its MUP.

Principle 4

Insurers should have sound collateral management and appraisal processes for the underlying mortgage properties.

3.14 Property Appraisals

3.14.1 Insurers shall conduct a proper and thorough assessment of the underlying property, and shall establish clear and transparent valuation policies and procedures.

3.14.2 In assessing the value of a property, insurers should take a risk-based approach, and consider a combination of valuation tools and appraisal processes appropriate to the risk being undertaken. The valuation process can include various methods such as on-site inspections, third-party appraisals and/or automated valuation tools.

3.15 On-site inspection

3.15.1 In general, insurers should ensure that an on-site inspection is carried out on the underlying property, either by a qualified employee or a valuer, depending on the nature of the property or transaction. Beyond the valuation of the property, an on-site property inspection is beneficial in the process of validating the occupancy, condition and ultimately, the existence of the property.

3.16 Third-party valuer

3.16.1 Insurers who use third-party valuers should ensure that appraisals are prepared with the appropriate professional skills and diligence, and that valuers designated are licensed or certified, and meet qualification standards. These valuers should be independent from the mortgage acquisition, loan processing and loan decision process.

3.17 Automated valuation tools

3.17.1 Where insurers use automated valuation tools, processes should be established to monitor their on-going effectiveness in representing the market value of the property. Controls should also be in place to ensure that the tools are being used appropriately by lending officers.

3.17.2 In general, insurers should not rely on any single method for property valuation. Insurers should undertake a more comprehensive and prudent approach to collateral valuation for higher-risk transactions such as mortgage loans with a relatively high LTV ratio.

3.17.3 Insurers should ensure that the claim on collateral is legally enforceable and can be realised in a reasonable period of time or, in absence of that verification, ensure that title insurance from a third party is in place.

3.17.4 When extending loans to borrowers, insurers should impose contractual terms and conditions that secure their full protection under the law, and seek to preserve an appropriate variety of legal recourses.

3.18 Loan-to-Value Ratio

3.18.1 The Commission expects insurers' LTV ratio frameworks to be dynamic. To this end, insurers should have in place a robust process for regular monitoring, reviewing and updating of their LTV ratio frameworks.

3.18.2 The LTV ratio should be re-calculated upon any refinancing and whenever deemed prudent, given changes to a borrower's risk profile or delinquency status, using an appropriate valuation/appraisal methodology.

3.18.3 An insurer should not arrange (or appear to arrange) with another lender, a mortgage or combination of a mortgage and other lending products (secured by the same property), in any form, that circumvents the insurer's maximum LTV ratio or other limits in its MUP, or any requirements established by law. For greater clarity, an insurer should not engage in any transactions (e.g. co-lending, bundling a mortgage loan with various priority interests, or any funding structure involving other secured loans) with other lenders, where the combined LTV of the loan(s) secured against the property exceeds the insurer's specific LTV limits established within its LTV ratio framework.

3.19 Property Value used for the LTV Ratio

3.19.1 In the event of rapid increase in property prices, insurers should use more conservative approaches in estimating the property value for LTV calculations and not assume that prices will remain stable or continue to rise.

3.19.2 For the purposes of incorporating property value risk and determining appropriate lending thresholds for mortgage loans, insurers have flexibility to apply valuation adjustments to specific properties when calculating LTV and/or by setting LTV ratio framework limits that consider and incorporate the property valuation risk factors described under Principle 4.

3.20 LTV Ratio and Loan Type

3.20.1 Mortgage loans are often defined with reference to insurer's LTV ratio. An insurer's LTV limit structure for underwriting loans should reflect the risk attributes of different types of mortgage loans and be consistent with its MUP. The Commission expects the average LTV ratios for all conforming and non-conforming mortgages to be less than the insurer's stated maximums, as articulated in its MUP, and reflect a reasonable distribution across the portfolio.

3.21 Non-Conventional ("High Ratio") Mortgage Loans

3.21.1 Non-conventional or "high ratio" loans have higher LTV ratios (less equity) at origination and generally require mortgage insurance to mitigate risk.

3.22 Conventional ("Low Ratio") Mortgage Loans

3.22.1 Conventional or "low ratio" mortgage loans have lower LTV ratios (more equity) at origination and do not necessarily require mortgage insurance.

3.23 Non-Conforming Mortgage Loans

3.23.1 Non-conforming mortgage loans are a subset of conventional mortgage loans and are broadly defined as having higher-risk attributes or deficiencies (such as insufficient income verification, low credit scores and high debt serviceability ratio or elevated credit risk, etc.), relative to other conventional mortgages. The Commission expects insurers to develop and maintain a comprehensive and risk-based definition for non-conforming loans in their MUPs.

3.23.2 The Commission expects insurers to impose a maximum LTV ratio less than or equal to 65 percent for non-conforming residential mortgages. This threshold should not be used as a demarcation point below where sound underwriting practices and borrower due diligence do not apply.

3.23.3 In general, the maximum lending threshold for a non-conforming loan should decrease as the risk of the transaction increases (e.g. due to presence of multiple higher-risk attributes or deficiencies in a loan application, the presence of higher risk factors around property valuation, etc.).

Principle 5

Insurers should have effective credit and counterparty risk management practices and procedures that support mortgage underwriting and mortgage portfolio management including, as appropriate, mortgage insurance.

3.24 Mortgage Insurance

3.24.1 Mortgage insurance is often used as a risk mitigation strategy. However, mortgage insurance should not be a substitute for sound underwriting practices by insurers, as outlined in these Guidelines. It should not be considered a substitute for conducting adequate due diligence on the borrower, or for using other risk mitigation techniques.

3.24.2 Insurers may obtain mortgage insurance from other insurers or international reinsurance companies. The use of either way is appropriate, provided that an insurer conducts due diligence on the mortgage insurer in relation to their level of exposure to that insurer.

3.24.3 The evaluation of each insurer's mortgage insurance counterparty should be updated throughout the life of the insurance contract. In cases where there may be material exposures incurred but not reported losses, the insurer's Management should ensure that the evaluation continues beyond the expiry date of the contract to ensure that the insurer assesses potential insurance recoverable from expected future claims.

3.25 Purchase of Mortgage Assets Originated by a Third Party

3.25.1 Insurers that acquire mortgage loans that have been originated by a third party should ensure that the underwriting standards of that third party, including due diligence on the borrower, debt service coverage, collateral management, LTV ratios, etc., are consistent with the insurer's MUP and compliant with these Guidelines. Insurers should not solely rely on the attestation of the third party. In addition to underwriting, insurers should also consider the risks associated with other functions that may be performed by the third party in respect of acquired loans (e.g. servicing).

3.26 Model Validation and Stress Testing

3.26.1 Insurers should use models to contribute to residential mortgage underwriting and/or acquisition decisions (e.g. valuation or bankruptcy models) or to make lending decisions by way of auto-adjudication.

3.26.2 Insurers are expected to have an independent validation process at both inception and on a regular basis for these models. This would include the regular review and recalibration of risk parameters with respect to their mortgage portfolio. The models used should reflect the nature of the portfolio and, as appropriate, be adapted if there is substantial variation of risk within the portfolio. This could include the development of new models to capture specific risk segments.

3.26.3 Additionally, insurers should have a stress-testing regime that considers unlikely but plausible scenarios and their potential impact on the mortgage portfolio. The results of such stress testing should be considered in the on-going validation of any models and substantially reflected in the insurer's Own Risk and Solvency Assessment as per the Insurance (Risk Management) Rules 2016.

3.27 Heightened Prudence

3.27.1 For mortgage loan asset portfolios of insurers that constitute greater credit risks (e.g. non-conforming mortgages), the Commission expects insurers to exercise heightened prudence through:

(a) greater Board and Senior Management oversight of the asset portfolio;

(b) increased reporting and monitoring of the residential mortgage loan asset portfolio by Management;

(c) stronger internal controls (i.e. additional substantiation of qualification information, enhanced approval processes, greater scrutiny by the risk management oversight function, etc.);

(d) stronger default management and collections capabilities; and

(e) increased capital levels to support the impact of portfolio risk (refer to next section).

3.27.2 Insurers should understand their mortgage portfolio risk dynamics, and ensure they are taken into account when refining their risk appetite expectations.

3.27.3 Insurers should ensure that loan agreement requires the applicant or borrower to notify the insurer of any material change which may have occurred, whether before or after the grant of mortgage loan, in the information provided in the application.

3.28 Adequacy of Regulatory Capital

3.28.1 The Commission expects that insurers will maintain adequate capital levels to properly reflect the risks being undertaken through the underwriting and/or acquisition of residential mortgages. Insurers should reflect mortgage loan assets with inherently greater risk in their risk-based approach with an increase in capital identified through their internal target capital ratio.

3.28.2 Where mortgages are issued in a currency other than Mauritian rupees, the insurer shall maintain adequate capital levels to cater for the foreign exchange risk.

4 Administration of the Guidelines

4.1 Information for Supervisory Purposes

4.1.1 An insurer is required to maintain and provide to the Commission, upon request, the auditor's compliance report and its MUP and associated management reports. An insurer should promptly inform the Commission if it becomes aware of any mortgage underwriting issues that could materially impact its financial condition.

4.2 Disclosure to Borrowers

4.2.1 Insurers shall provide the borrower with a fact sheet setting out the key facts of any proposed mortgage facility offered, when the insurer initiates discussions with the borrower on the key features of the mortgage facility, which shall include at least the following:

(a) name of the borrower;

(b) date when the fact sheet is produced;

(c) name of the insurer;

(d) name of the staff issuing the fact sheet;

(e) product's marketing name;

(f) tenor of the mortgage facility;

(g) lock-in period;

(h) amount of mortgage extended under the facility;

(i) repayment schedule of the mortgage facility;

(j) type of interest rate, fixed or variable;

(k) type of security;

(l) interest rate schedule of the mortgage facility;

(m) estimated total repayment during the entire loan tenor;

(n) estimated rupees paid back for every one rupee borrowed; and

(o) a breakdown of all applicable fees and charges payable, such as:

  (i) loan processing fee;

  (ii) charges for rejection of loan after accepting letter of offer;

  (iii) late payment charges;

  (iv) charges for changes in the mortgage tenor;

  (v) charges for switching to a different mortgage product during the tenor of an existing mortgage;

  (vi) charges for prepaying a portion or the full mortgage;

  (vii) charges for restructuring the mortgage;

  (viii) legal fees and other statutory fees; and/or

  (ix) valuation fee.

4.2.2 Insurers shall also provide the borrower with a fact sheet at each subsequent discussion where there are changes to the key features of the proposed mortgage facility. The insurer shall provide, in every case, the borrower with a fact sheet setting out the finalised key features, before the insurer issues to the borrower a document setting out the terms and conditions of the mortgage facility for acceptance by the borrower.

4.2.3 Where valuation fees are borne by the borrower, the insurer shall provide copy of such reports.

4.3 Non-compliance with these Guidelines

4.3.1 Where insurers are not in sound financial condition or are not complying with supervisory requirements, the Commission shall require the Board and/or Senior Management to take necessary corrective measures to deal with prudential soundness issues in an expeditious manner. The Commission shall also require the Board and Senior Management of the insurer to ensure that policies and procedures designed to control and manage risk are adhered to.

4.3.2 Where an insurer fails to adequately account and control for the risks of underwriting or acquisition of mortgages, on a case-by-case basis, the Commission can take or direct the insurer to take corrective measures. The Commission's actions can include heightened supervisory activity and/or directions to commensurate with the risks being undertaken by the insurer.

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