



**Submission on the National Housing
Finance and Investment Corporation**

October 2017

About QBE

QBE Insurance Group (**QBE**) is one of the few domestic Australian-based financial institutions to be operating globally, with operations in and revenue flowing from 37 countries.

Listed on the ASX and headquartered in Sydney, organic growth and strategic acquisitions have seen QBE grow to become one of the world's top 20 general insurance and reinsurance companies, with a presence in all key global insurance markets.

As a global insurer, QBE believes that Australia must continually look to refresh its financial and regulatory systems so that the nation remains competitive with global financial markets and attractive to investment.

QBE, as an institutional investor investing across multiple asset classes globally, can not only provide capital but also offers insights on how to make investment opportunities and products attractive to the investment market. QBE is an active supporter of the development of the social impact investment market, both in Australia and around the world. QBE is currently working with various parties in a number of countries to help create deals involving social impact bonds (**SIBs**). QBE can offer insights on leading practice globally and what is needed to support the growth of SIBs and compress the timeframe for transaction development.

QBE presently invests in a broad range of social impact opportunities as an institutional investor, including SIBs in 'housing first' interventions and homelessness.

Additionally, as part of QBE, QBE Lenders' Mortgage Insurance Limited (**QBE LMI**) has been providing lenders mortgage insurance (**LMI**) for residential property in Australia for more than 50 years. LMI has been a critical component of the housing market since 1965, facilitating home ownership and accessibility to credit for millions of borrowers. LMI enables those who would otherwise have difficulty obtaining a home loan (particularly borrowers with low incomes or low levels of equity), to satisfy responsible lending criteria and purchase a home. It also enhances the underlying efficiency and integrity in the home lending market.

QBE has a keen interest in housing affordability initiatives and the critical role that housing plays in supporting the social and economic wellbeing of Australians and the economy as a whole, and is pleased to provide this brief submission in support of the focus on housing affordability.

Background

In the 2017-18 Budget, the Australian Government announced a comprehensive housing affordability plan to improve outcomes across the housing continuum. The plan includes establishing:

- the National Housing Finance and Investment Corporation (**NHFIC**) – a new corporate Commonwealth entity dedicated to improving housing affordability;
- a \$1 billion National Housing Infrastructure Facility (**NHIF**) which will use tailored financing to partner with local governments in funding infrastructure to unlock new housing supply; and
- an affordable housing bond aggregator to drive efficiencies and cost savings in the provision of affordable housing by community housing providers (**CHPs**).

Feedback on the potential structure and governance of the NHFIC, and the operation of the NHIF and affordable housing bond aggregator is now being sought. Options for consideration are outlined in the National Housing Finance and Investment Consultation Paper issued by the Treasury in September 2017 (**Consultation Paper**).

QBE response

QBE welcomes the opportunity to respond to the Treasury's Consultation Paper.

QBE is broadly supportive of the proposed approach to establishing the NHFIC as well as the NHIF and bond aggregator functions that the NHFIC will operate so as to attract institutional capital and social investors to address Australia's affordable housing needs.

QBE agrees that public housing and government funding is a necessary part of supporting those who are unable to afford housing themselves. QBE considers that there is also a positive opportunity for the private sector to assist the NHFIC in achieving its objectives, through cross-sector engagement and public-private-social partnerships.

QBE LMI also sees a positive opportunity for the private sector to support key workers into housing and home ownership, complementing government initiatives. Private sector financing and LMI remain a key part of the financing tools for private sector ownership of housing.

Response to issues for consideration

QBE is pleased to respond as follows to the questions set out in the Consultation Paper. We have limited our responses to those items that relate most closely to our areas of expertise as an institutional investor and as a LMI provider in Australia's home lending market.

Section 2 – National Housing Finance and Investment Corporation

Item 4: Engagement – How can the NHFIC effectively engage with stakeholders across Australia to ensure that viable projects are identified?

QBE acknowledges the value of stakeholder engagement across sectors, and the value of cross-sector consortia bringing different knowledge and resources to solve affordable housing in Australia.

We would encourage NHFIC to consider forming a panel or reference group made up of different participants from across the public, private and social sectors. Additionally, rather than providing a one-off market sounding, we suggest that the panel operate on an ongoing basis and regularly consider relevant market developments and provide input on viable projects and products.

Section 3 – National Housing Infrastructure Facility

Item 2: Design Features – Are the design features appropriate, including the considerations that the NHIF could take into account when assessing projects?

QBE acknowledges the proposal that the NHIF's provision of financing to eligible housing-related infrastructure projects would be guided in part by additionality (i.e. projects that otherwise would not proceed or would face undue delay without assistance).

QBE supports this proposal to preference the direction of funds to projects that can demonstrate additionality. In our view, this would enable the NHIF to achieve its social objectives to unlock new housing supply, with the extra benefit of adding to, rather than competing with, other financing sources.

QBE would also encourage the NHIF to seek to achieve wider policy and economic objectives by including green infrastructure standards, sustainability and green building standards, along with social objectives when selecting eligible projects. Examples of this approach can be observed in other markets in Europe and the US.

Item 7: Affordable Housing – Should the NHIF also focus on facilitating the supply of affordable housing, including for key workers? If so, what is the most effective way to achieve this objective?

QBE is supportive of Government's use of policy and planning provisions to address housing affordability and home ownership access for high-needs groups, including key workers.

As such, the NHIF's role could be expanded to include facilitating the supply of affordable housing for key sectors of the community as well as housing related infrastructure.

To achieve this objective, QBE supports regeneration of social housing, and the delivery of social housing for high-needs groups through not for profit, non-government organisations such as CHPs.

We support inclusionary zoning to facilitate affordable housing for key workers so they can afford to live in the communities that they serve. Key workers are an important part of our society and economy, and although their incomes may be lower they are stable and effectively government backed.

If such change is envisaged, QBE LMI would encourage consideration of the role that the private sector can play in supporting the NHIF in improving affordable housing supply, such as the provision of LMI.

QBE LMI sees a positive opportunity for the private sector to support key workers into housing and home ownership through the provision of LMI. Private sector financing and LMI remain a key part of the financing tools for private sector ownership of housing, complementing government initiatives.

Section 4 – Affordable Housing Bond Aggregator

Item 5: Bond issuance – Could affordable housing bond issuance be expanded to the offshore market or the retail bonds market? What are the potential benefits and costs?

Local bond issuance would support market expansion for local investors. We note that for offshore investors, there would likely be interest in this area for institutional investors seeking diversification, particularly if supported through a government guarantee.

Item 6: Bond issuance size – What is the likely preferred issuance size for large-scale institutional investors?

QBE notes that the proposed initial bond issuance is AUD100m, with subsequent issuances to be lower than this. QBE considers the bond issuance size of AUD100m to be the minimum suitable for issuance to attract institutional investors.

Item 8: Government guarantee – How would a potential Government guarantee on NHFIC bond issuances impact the NHFIC's ability to raise and price funds? What are the risks associated with applying a guarantee and how could those risks be mitigated?

QBE agrees with the view that a government guarantee on NHFIC bond issuances would provide positive investor confidence and support for the issuance, and would succeed in attracting capital to more rapidly address affordable housing and supply.

Conclusion

QBE appreciates the opportunity to respond to the Consultation Paper.

There is clearly a continuum in housing for Australians – from homelessness and social housing, affordable rental markets, affordable housing, home ownership, upgraders and investors.

QBE is involved at different points of the spectrum including social investment in SIBs aimed at reducing homelessness, and through the LMI product, which supports people to move through the spectrum into home ownership.

As outlined, QBE has a keen interest in housing affordability initiatives and the critical role that housing plays in supporting the social and economic wellbeing of Australians and the economy as a whole.

In this context, QBE would welcome providing further information on the role of institutional investment in social infrastructure and public-private-social sector partnerships as well as the role of LMI in private sector ownership of housing.

Please do not hesitate to contact Kate O'Loughlin at kate.oloughlin@qbe.com or on (02) 8275 9089 if you would like to discuss any aspect of this submission, or if you require any further information.