

Question ID

2025_7293

Legal act

Regulation (EU) No 575/2013 (CRR)

Topic

Credit risk

Article

208

Paragraph

5

COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations

Not applicable

Article/Paragraph

n.a.

Type of submitter

Other

Subject matter

Requirements for the purpose of treating exposures secured by mortgages on immovable property as duly secured from an RWA computation perspective under CRR Article 124(2) of the CRR.

Question

Can a global insurance against damages on a portfolio of exposures secured by immovable properties subscribed directly by the lending institution be considered as compliant with the requirement of Article 208(5) of the CRR - that is to say considered, under the standardized approach, as meeting the operational requirements for the purpose of treating exposures secured by mortgages on immovable property (or in case an institution has opted for the application of article 108(5)(a) allowing to consider a guaranteed exposure as an exposure secured by a mortgage on immovable property) as duly secured from an RWA computation perspective under Article 124(2) of the CRR?

Background on the question

Article 208(5) of the CRR requires that *"the immovable property taken as credit protection shall be adequately insured against the risk of damage and institutions shall have in place procedures to monitor the adequacy of the insurance."*

In some European jurisdictions there are very high rates of insured clients against damages on their home (in some jurisdictions, insurance penetration can reach more than 99% of owners of residential property for instance). These insurance policies commonly cover a wide range of causes of damages (fire, floods, natural disasters etc.) and include deductibles such as franchise or ceiling that are proportionate to the property covered and defined at arm's length between insurers and insured individuals or companies.

Nevertheless, the local legal framework may not allow institutions to put in place contractual and control provisions in accordance with Article 208(5) of the CRR that could be followed by the expected effects: there is no legal obligation for individual owners to insure their properties against damages and law allows the cancellation of the insurance contract by the customer at any time. Moreover, contractual obligations on the taking out of insurance in such legal context that is not binding on the customer could be perceived as unfair under consumer protection law.

Hence an efficient approach that seems achievable to properly meet the conditions of Article 208(5) of the CRR when necessary is the underwriting of a general insurance against collateral losses by the institutions themselves. Such insurance shall guarantee to the institution the reimbursement of financial losses linked to the impossibility of using the pledge/ mortgage due to the damages or destruction of the related property. It does not cover any compensation to the debtor for the restoration of the property following a loss.

This guarantee would be exercised upon the following cumulative events: i) the debtor is in default, ii) the immovable property, constituting the mortgage pledge, has been partially or totally damaged, iii) the owner of the damaged property was not insured *or was not sufficiently insured* - to obtain compensation from the insurer company for the damage caused to the property and (iv) the institution is not otherwise indemnified for the loss (as per the indemnification principle of the insurance regime) .

In order to ensure the CRR principle of adequacy, the causes of damages on the immovable property covered would need to be the same as those covered by standard home insurance commercialized in the member state jurisdiction (according to jurisdiction : fire, natural disaster etc.).

The insurance scheme would aim at indemnifying the lending institution at a level in relation with the outstanding amount of the exposure secured by the damaged property.

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Final answer

Article 208(5) of Regulation (EU) No 575/2013 (CRR) requires that immovable property is to be adequately insured against the risk of damage and that institutions have in place procedures to monitor the adequacy of this insurance, for it to qualify as eligible collateral and ensure an effective mitigation of damage losses.

Article 208(5) of the CRR does not require that insurance against collateral damage is taken out by a counterparty (such as the obligor whose exposure is secured by the immovable property, or a different obligor providing support or a guarantee). Next to that, there is no CRR restriction that an insurance policy against collateral damages is applicable to a single immovable property only, for Article 208(5) to be met. As such, global insurance against losses due to collateral damage on immovable properties may also be taken out by the institution itself, as long as the institution has in place procedures to monitor the adequacy of the global insurance.

Consequently, if these conditions are met, the immovable property securing the exposure complies with Article 208(5) of the CRR, whether in the case of a mortgage loan, or in the case of an exposure regarded as secured by a mortgage on residential property instead of being treated as guaranteed in accordance with article 108(4).

Status

Final Q&A

Answer prepared by

Answer prepared by the European Commission because it is a matter of interpretation of Union law.
