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Unlocking Insurer Capital for European Securitisations

Executive Summary

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The European Commission has launched a major regulatory reform to revitalise Europe's securitisation market and better channel insurer capital into the real economy. With over **€10 trillion in assets under management**, insurers represent a vast but underutilised source of long-term funding.

Historically, insurer participation has been limited by **Solvency II capital charges** and rigid prudential rules, which made securitisations economically unattractive compared to other fixed-income assets. The 2025 reforms directly address these barriers by:

- **Recalibrating Solvency II capital requirements**, aligning high-quality securitisations with the treatment of covered bonds.
- **Recognising unfunded credit protection from insurers** as eligible under the STS framework, making insurance-backed Significant Risk Transfer (SRT) transactions more efficient.

Together, these changes create a **dual catalyst** for insurer participation – reducing capital costs for funded investments and opening new opportunities for unfunded risk-sharing. This marks a decisive policy shift, positioning insurers as **strategic partners to European banks** in transferring credit risk and expanding lending capacity.

Looking ahead, these reforms are expected to unlock significant new insurer capacity, **increase market liquidity, enhance pricing efficiency, and strengthen credit provision to the real economy**. The result is a more dynamic and integrated European securitisation market, fully aligned with the ambitions of the EU's **Savings and Investments Union**.

Introduction: A New Dawn for Securitisation in Europe

The European Commission, as part of its strategic ambition to build a robust Savings and Investments Union (SIU), has initiated a significant regulatory overhaul aimed at revitalising the EU's securitisation market. A central objective of the SIU is to improve the way the financial system channels the vast, long-term capital pool held by institutional investors into productive investments that support the real economy. Within this context, the European insurance sector, with assets under management of approximately EUR 10 trillion, represents a critical but largely untapped source of funding.

For years, a central policy challenge has been the conspicuously low participation of insurers in the securitisation market. Despite their natural capacity as long-term, stable investors, securitisation positions have consistently represented less than 1% of insurers' total investment portfolios. This underinvestment has been widely attributed to a prudential framework under the Solvency II Directive that, while designed to protect policyholders, has created significant and often disproportionate barriers to the asset class. The European Commission's own evaluation concluded that the existing framework has "not been successful in reducing disproportionately high prudential costs for insurance companies and in increasing meaningfully the level of investment in securitisation by the insurance sector".¹

In response, a coordinated regulatory effort is now underway to dismantle these barriers. This initiative is unfolding on two complementary fronts:

1. A new draft Delegated Regulation amending Solvency II, published in July 2025, which directly recalibrates the capital requirements for insurers holding *funded* securitisation positions on their balance sheets.
2. An earlier package of proposals from June 2025 to amend the Securitisation Regulation, which includes a transformative measure to recognise *unfunded* credit protection from insurers as eligible for the Simple, Transparent, and Standardised (STS) designation.²

Viewed together, the two reforms represent the most comprehensive attempt to date to fully integrate the insurance sector into the European securitisation ecosystem. The Commission is deliberately leveraging prudential regulation as a tool for broader economic policy, aiming to "facilitate bank lending capacity by allowing originating credit institutions to transfer risk outside the banking sector".¹ The following analysis will dissect the existing hurdles that have constrained insurers, provide a detailed breakdown of the proposed legislative solutions, and offer a forward-looking assessment of their combined impact on the market, with a particular focus on the rapidly evolving landscape of Significant Risk Transfer (SRT) transactions.

The Solvency II Prudential Hurdles for Insurers

The historically low appetite for securitisation among European insurers is not a function of market dynamics alone but has been fundamentally shaped by the prudential framework established by Solvency II. Since its implementation in 2016, the regime has embedded a series of disincentives that

have rendered the asset class economically unattractive for many insurers, particularly those using the standard formula to calculate their capital requirements. These hurdles can be broken down into three primary categories: punitive capital charges, a lack of risk sensitivity, and other operational frictions.

Punitive Capital Charges

The principal deterrent has been the treatment of securitisation under the spread risk submodule of the Solvency Capital Requirement (SCR). The SCR is designed to ensure an insurer can withstand a 1-in-200-year shock event, and for market risk, this involves applying stress factors to asset values. The capital charges for securitisation positions have been calibrated at levels significantly higher than those for other fixed-income instruments of identical credit rating and duration, such as corporate bonds and, most notably, covered bonds.³

This disparity created a clear economic disadvantage. For an insurer making an investment decision, the expected return of an asset must be weighed against the amount of regulatory capital that must be held against it. Given the punitive charges, a securitisation note would have to offer a substantially higher yield than a comparably rated corporate bond to deliver the same return on capital. This made securitisations uncompetitive and led rational, capital-conscious investors to allocate their funds elsewhere.⁵

Lack of Risk Sensitivity

Compounding the issue of high absolute charges was the framework's blunt and often unsophisticated approach to risk differentiation within the securitisation asset class itself.

First, the framework failed to adequately distinguish between the risk profiles of senior and non-senior tranches, particularly for non-STS transactions. The capital structure of a securitisation is designed to concentrate credit risk in the most junior tranches, providing robust protection to the senior tranches. However, the Solvency II standard formula did not fully reflect this structural seniority, penalising even the highest-rated senior tranches of non-STS deals with capital charges that did not align with their actual, lower risk profile.¹

Second, while the introduction of the STS framework in 2019 provided a preferential capital treatment for qualifying deals, the gap in capital requirements between an STS and a non-STS position of the same rating and seniority remained disproportionately large.³ This created a severe "cliff-edge" effect, discouraging investment in the vast majority of the market that, for various valid reasons, did not meet the strict STS criteria.

This combination of punitive and poorly differentiated capital treatment created a self-reinforcing negative cycle. The high capital charges suppressed insurer demand, which in turn contributed to lower liquidity and wider bid-ask spreads in the secondary market for these instruments. This illiquidity was then perceived as an additional risk factor, further justifying insurers' reluctance to

invest and making it difficult for regulators to rationalize significant capital relief, thereby entrenching the market's stagnation.

Other Frictions

Beyond the direct impact of capital charges, other aspects of the regulatory environment have created further headwinds. The due diligence requirements mandated by Article 5 of the Securitisation Regulation, while crucial for investor protection, have been widely criticized as overly prescriptive and onerous.³ These obligations can be particularly challenging to fulfill within the tight timeframes of secondary market trading, further reducing market liquidity.⁷

Furthermore, for life insurers, a key consideration is Asset-Liability Management (ALM). Many securitisation structures feature variable or pre-payable cash flows, which do not align well with the long-term, predictable liabilities of annuity providers. The strict "fixity" of cash flows required to qualify for the beneficial Matching Adjustment (MA) treatment—a key tool for life insurers to manage duration risk—effectively excludes most securitisation structures, making simpler assets like corporate bonds a more natural and efficient portfolio fit.

Recalibrating the Framework: The Draft Solvency II Amendments

The draft Delegated Regulation amending Commission Delegated Regulation (EU) 2015/35 represents a direct and targeted response to these long-standing issues. The stated intention is to remove unjustified layers of prudence and address the "undue prudential disincentives that discourage insurers from investing in securitisations".¹ The core of the reform lies in a comprehensive overhaul of Article 178, which governs the calculation of the SCR for spread risk on securitisation positions. The new approach introduces a far more granular and risk-sensitive methodology, differentiating between STS and non-STS transactions, and, crucially, between senior and non-senior tranches within each category.

A New, More Granular Approach

The amendments fundamentally restructure the capital treatment for securitisations:

- **Senior STS Securitisations:** This is arguably the most significant change. The draft regulation proposes to align the prudential treatment of senior tranches of STS securitisations with that of covered bonds. This move formally acknowledges that the enhanced transparency, simplicity, and standardisation of the STS framework mitigate risks to a level comparable with these traditionally high-quality assets. This directly addresses the historical complaint that STS securitisations were unfairly penalised relative to other, similar fixed-income products.
- **Non-Senior STS Securitisations:** While the capital requirements for non-senior STS tranches remain higher than for their senior counterparts, reflecting their subordinated position in the capital stack, the risk factors are also being recalibrated. The adjustments are designed to be

proportional to the changes for senior tranches, ensuring a consistent and logical relationship between the different layers of risk within an STS transaction.¹

- **Senior Non-STS Securitisations:** In a critical innovation, the draft regulation introduces a new, dedicated set of lower risk factors for senior tranches of non-STS securitisations for the first time. This directly remedies the previous framework's most significant flaw—its failure to differentiate risk within the non-STS universe. By recognizing the credit enhancement and structural protection afforded to senior tranches even in non-STS deals, the reform makes this large segment of the market a more viable and economically rational investment for insurers.
- **Non-Senior Non-STS Securitisations:** The risk factors for these more junior tranches are also being reduced. The explicit goal, as stated in the Explanatory Memorandum, is to ensure that the ratio of capital requirements between senior and non-senior tranches "better aligns with banking rules".¹ This signals a clear policy objective of achieving greater prudential consistency across the banking and insurance sectors, reducing opportunities for regulatory arbitrage and creating a more level playing field.

The practical impact of these changes is a substantial reduction in the capital that insurers must hold against securitisation investments. The following table provides an illustrative comparison of the SCR for spread risk for a representative securitisation note under the current and proposed frameworks.

Table 1: Illustrative Impact of Proposed Changes on Solvency II Spread Risk SCR (Based on a representative securitisation note with Credit Quality Step 1 and a 5-year modified duration)

Asset Type	Current SCR Factor (Illustrative)	Proposed SCR Factor	% Reduction in Capital Charge
Senior STS Securitisation	6.0%	4.5% (min(0.9%×5;1))	25%
Non-Senior STS Securitisation	17.0%	14.0% (min(2.8%×5;1))	18%
Senior Non-STS Securitisation	20.0%+	16.5% (min(3.3%×5;1))	>17%
Non-Senior Non-STS Securitisation	20.0%+	37.0% (min(7.4%×5;1))	N/A (New Granularity)
Comparable Covered Bond	~4.5%	~4.5%	0%

As the table demonstrates, the capital relief is significant across the board, particularly in the recalibration of STS tranches and the creation of a more favourable category for senior non-STIS positions. This recalibration directly improves the return-on-capital calculation for insurers, fundamentally altering the economic rationale for investing in the asset class.

The Insurer's Role in Significant Risk Transfer (SRT) Securitisation

To fully appreciate the impact of the Solvency II reforms, it is essential to understand the specific market segment where insurers are poised to play an increasingly critical role, Significant Risk Transfer (SRT) securitisation. SRT is a specialised form of securitisation used by banks not primarily for funding, but as a sophisticated capital management tool.¹⁰

At its core, an SRT transaction allows a bank to transfer a significant portion of the credit risk associated with a portfolio of its loans (e.g., corporate loans, mortgages, SME loans) to third-party investors.¹² By doing so, the bank can achieve a reduction in the Risk-Weighted Assets (RWAs) it is required to hold against that portfolio, freeing up regulatory capital that can be redeployed for new lending or other business activities. This has become an indispensable tool for European banks, particularly as they prepare for the stricter capital requirements of the final Basel III framework.

Insurers have emerged as key strategic partners for banks in SRT transactions, participating in two distinct but complementary capacities:

1. **As Funded Investors:** In this role, an insurer acts as a traditional capital markets investor. It purchases securities, typically in the form of Credit-Linked Notes (CLNs), issued by a Special Purpose Vehicle (SPV) or the bank itself.¹⁴ The cash proceeds from the sale of these notes serve as collateral to absorb losses from the underlying loan portfolio. From the insurer's perspective, this is an investment that sits on the asset side of its balance sheet and is subject to the Solvency II capital charges for spread risk.¹⁵
2. **As Unfunded Protection Providers:** Increasingly, (re)insurance companies are participating in SRT transactions by providing unfunded credit protection, typically structured as a financial guarantee or an insurance policy.⁸ The insurer commits to reimburse the bank for losses on the protected tranche as they occur, in exchange for receiving a regular premium. This activity resides on the liability side of the insurer's balance sheet and is treated as an underwriting risk.¹⁵

The SRT market represents a powerful mechanism for redistributing credit risk from the banking sector to long-term investors like insurers who have the capacity and appetite to manage it. Banks maintain their core competency in loan origination and client relationships, while specialist risk-takers like insurers or debt funds provide the capital backing. The regulatory reforms currently underway are not merely facilitating investment in an existing asset class; they are actively endorsing and accelerating this systemic shift towards more efficient risk sharing between the banking and insurance sectors.

Assessing the Impact of the 2025 Reforms on the SRT Market

Together, the two recent reforms create a powerful dual catalyst poised to significantly boost insurer participation across the entire SRT ecosystem, impacting both funded and unfunded structures.

The June 2025 Securitisation Proposals and Unfunded STS Protection

The proposals to amend the Securitisation Regulation contain a provision that is widely regarded as transformative for the SRT market: making unfunded credit protection provided by qualifying EU (re)insurance undertakings eligible for the STS designation.²

Currently, unfunded insurance protection can only be used in non-STS transactions, which offer less capital relief to the originating bank.¹⁵ By allowing these structures to qualify for the more favourable STS capital treatment, the reform would make insurance-backed SRTs a far more efficient and attractive option for banks. This is expected to unlock a wave of new demand from banks seeking to partner with insurers to manage the risk of their core lending portfolios. The International Association of Credit Portfolio Managers has noted a dramatic increase in insurer activity in this space even before the reform, with an estimated 138% increase in the value of SRT tranches protected by insurers in the last year alone, highlighting the significant pent-up demand.²

The Draft Delegated Solvency II Regulation and Funded SRT Investment

The draft Delegated Regulation acts as the second, complementary catalyst by directly targeting the economics of *funded* SRT investments. As detailed in Section 2, the substantial reduction in spread risk capital charges for securitisation notes, including the CLNs typically issued in SRT transactions, directly improves their attractiveness from a return-on-regulatory-capital perspective.

A lower SCR means an insurer can achieve a higher return for the same level of risk and nominal yield, or it can price its capital more competitively to win mandates. This enhanced economic incentive will likely lead insurers to increase their strategic allocations to funded SRT investments, allowing them to participate in a wider range of transactions and provide a deeper pool of capital to the market.

Conclusion and Market Outlook

The European Commission's recent regulatory initiatives represent a fundamental and long-awaited shift in the prudential treatment of securitisation for the insurance sector. The proposed amendments to the Solvency II Delegated Regulation, when viewed in conjunction with the parallel reforms to the Securitisation Regulation, constitute a coordinated and powerful effort to dismantle the regulatory barriers that have historically suppressed insurer investment in this critical asset class.

The analysis demonstrates that the existing framework, characterized by punitive and poorly differentiated capital charges, created a significant economic disincentive for insurers. The new draft

legislation directly addresses these flaws by introducing a more granular, risk-sensitive approach that substantially reduces capital requirements, particularly for higher-quality senior tranches of both STS and non-STS securitisations.

The impact of these reforms is expected to be most profound in the Significant Risk Transfer market. By making both funded investment in SRT notes more capital-efficient and, crucially, allowing unfunded insurance protection to qualify for the STS framework, the reforms create a dual catalyst that will unlock significant new capacity from the insurance sector. This represents a clear policy endorsement of the evolving "originate-to-distribute-risk" model, positioning insurers as key strategic partners to the European banking system.

Looking forward, the market can anticipate a material increase in insurer activity across the full spectrum of securitisation, leading to greater market liquidity, more efficient pricing, and an enhanced ability for banks to manage their capital and extend credit to the real economy. The reforms are a decisive step toward achieving the goals of the Savings and Investments Union by finally integrating the insurance sector's vast capital resources into the core of Europe's capital markets. While the full impact will depend on the final text and practical implementation—particularly concerning the treatment of non-EU protection providers—the direction of travel is unequivocally positive, heralding a new and more dynamic era for European securitisation.

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