

# Solvency II review: Tailwind for securitisations

How regulation opens up new opportunities for insurance companies



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## Summary

This opens up considerable new scope for asset management in the insurance industry. In future, capital requirements for securitisation will be significantly reduced in order to increase the attractiveness of this asset class. This has been made possible by the review of Solvency II. Based on the Savings and Investment Union, the European Commission has revised the Delegated Regulation for Solvency II (known as Level II). It will come into force on 30 January 2027.

From a regulatory perspective, securitisations are divided into STS (Simple Transparent Standardised) and non-STS (Chapter 4 of the Securitisation Regulation). Securitisations that meet the criteria for simple, transparent and standardised securitisations (STS securitisations) receive preferential treatment in terms of capital requirements. These generally include securitised consumer loans (ABS) and residential mortgage-backed securities (RMBS). Securitised commercial mortgage-backed securities (CMBS) and corporate loan-backed securities (CLO) fall under the category of non-STS securitisations.

The EU Commission's stated goal is to enable capital requirements for non-STS securitisations to be aligned with those for the banking sector and for STS securitisations to be aligned with the capital requirements for covered bonds.

In this thematic dossier, we would like to highlight that the combination of both types of securitisation can represent an attractive alternative to a corporate bond portfolio in terms of returns and solvency capital requirements (SCR).\*

The relative value of securitisations can be significantly increased compared to corporate bonds following the Solvency II review. With better credit quality, excess returns can be achieved or a better return/SCR ratio can be presented.\*

Union Investment's Credit Solutions team is the ideal partner for constructing and managing portfolios in line with Solvency II requirements. Union Investment has been active in the securitisation market since 2001. The team has been working together in its current configuration (five portfolio managers with an average of 23 years' experience in the capital markets) since 2016 and has in-depth knowledge of the requirements of regulated investors. The team manages a total of barely €4.0 billion for institutional clients.

This thematic dossier was produced in cooperation between Union Investment and SolvencyAnalytics. SolvencyAnalytics AG, Switzerland, provides regulatory analysis and reporting services for a wide range of clients in the insurance, banking, pension fund and asset management sectors (SolvencyAnalytics).

\*Detailed information on the opportunities and risks of investment funds in the securitisation asset class can be found on page 9.

## Theory

### Solvency II review – relief for securitisations

The Solvency II review led in particular to a revision of the Solvency II Directive 2009/138/EC by the amending Directive (EU) 2025/2. The revised Directive will enter into force on 30 January 2027.

Similarly, Delegated Regulation (EU) 2015/35 is an integral part of the Commission Communication on the Savings and Investment Union of 19 March 2025. With trillions in assets under management, the insurance sector remains an important institutional investor and can contribute to achieving the objectives of the Savings and Investment Union. In particular, the insurance sector can provide long-term capital financing to companies, especially SMEs and small mid-cap companies, by investing in equity and certain alternative assets, i.e. venture capital, private equity and infrastructure. However, the share of insurance sector investment in these markets remains limited. The same applies to securitisations, which still account for less than 1% of insurers' investment portfolios.

The review analysis\* showed that, despite the regulatory improvements introduced in 2018, only partial success has been achieved in removing regulatory barriers to securitisation. Furthermore, the assessment found that it has not been possible to reduce the disproportionately high supervisory costs for insurance companies or to significantly increase investment in securitisation by the insurance sector.

### Adjustments in the market risk module

Against this backdrop, the amendment to the Delegated Regulation introduces a number of measures in the market risk module of the standard model under Solvency II with a view to significantly reducing the capital requirements for securitisations.

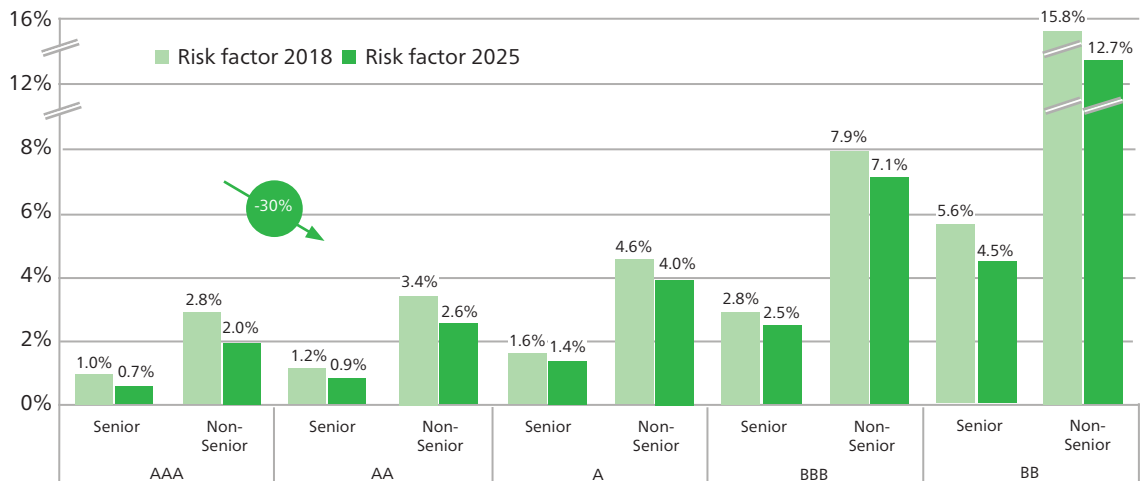
### Changes in the Spread Risk sub-module

In order to increase banks' lending capacity, the possibilities for transferring credit risks (securitisation) outside the banking sector will be improved. This will be achieved in particular by significantly reducing the risk factors in the Spread Risk sub-module of securitisation investments for insurance companies.

The following charts show the reduction in current (2018) and future (2025) stress factors – for terms of up to 5 years – for each securitisation category:

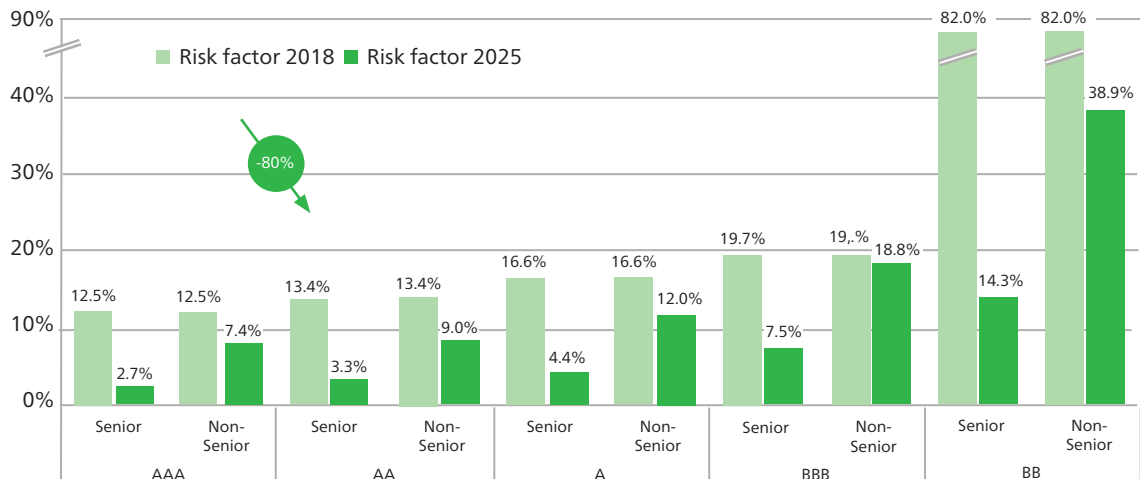
\*Commission Delegated Regulation (EU) 2025/7206 of 29 October 2025; Recitals 32 and 33; [www.solvency2-delegated-regulation-2025-7206\\_en.pdf](http://www.solvency2-delegated-regulation-2025-7206_en.pdf)

### STS securitisations (ABS/RMBS): reduction of risk factors



Solvency II adjustments (Level II) for STS securitisations (WAL<5)

### Non-STS securitisations (CLO/CMBS): Significant reduction in risk factors



Solvency II adjustments (Level II) for non-STS securitisations (WAL<5)

As before, Solvency II refers to the Securitisation Regulation and its definition of so-called STS securitisations. The STS criteria are defined in the Securitisation Regulation and are specified in more detail in a regulation issued by the European Banking Authority (EBA). As under the CRR banking regulation, the aim here is to give preference to STS securitisations over other (non-STS) securitisations. As part of the Solvency II review, new risk factors for senior tranches are being introduced, particularly for non-STS securitisations, while the risk factors for non-senior tranches are being reduced in order to better align senior and non-senior capital requirements with the banking regulations mentioned above.

In the case of STS securitisations, the regulatory treatment of senior tranches is aligned with the treatment of covered bonds, and the treatment of non-senior tranches is adjusted to the same extent as senior tranches.

### **Elimination of the requirement for a double rating**

As part of the consultation, the industry also called for the removal of the requirement for European insurers to conduct a double credit assessment for securitisation risks. Securitisations should be treated in the same way as other fixed-income instruments.

The Commission has partially complied with this by removing the dual rating requirement, at least for simple, transparent and standardised (STS) securitisation positions.

### **Adjustment of the correlation matrix**

However, additional capital relief measures will introduce, among other things, a lower correlation factor between spread and interest rate risk in a scenario of falling interest rates. This was preceded by an economic analysis\* conducted by the insurance supervisory authority EIOPA, which found that the current calibration appears too conservative. In particular, empirical data show that the largest interest rate declines did not occur at the same time as the widening of spreads on the bond markets. As a result, the correlation factor will be reduced from 0.5 to 0.25.

### **Changes in the Interest Rate Risk sub-module**

In addition, interest rate stress is being adjusted across the board as part of the Solvency II review.

In order to better calculate insurers' interest rate risk – particularly in a low interest rate environment such as that which prevailed between 2016 and 2019 – the rules for the interest rate risk sub-module are being amended to take account of interest rates falling into negative territory or a further decline in already negative interest rates.

Changes to the standard formula for interest rate risk should not lead to an unjustified increase in capital requirements when interest rates are low. Accordingly, a maturity-dependent floor will be introduced.

Nevertheless, it can be assumed that, under the recalibration, insurers will again have to hold more solvency capital for interest rate risks in future, both in the event of an upward and a downward shock. For example, based on a corporate bond portfolio representative of insurance companies (mod. duration: 3.3; average rating: A-), the current interest rate environment will result in an increase of 100 per cent in an upward shock and 60 per cent in a downward shock compared to the current interest rate module.

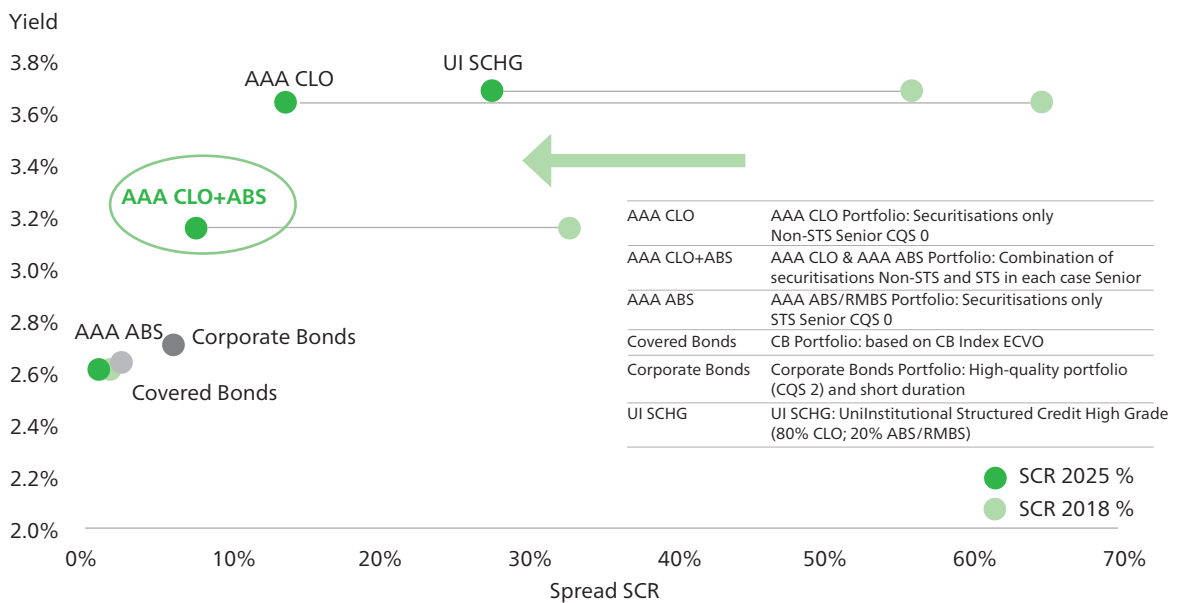
\*Commission Delegated Regulation (EU) 2025/7206 of 29 October 2025; Recital 20; [www.solvency2-delegated-regulation-2025-7206\\_en.pdf](http://www.solvency2-delegated-regulation-2025-7206_en.pdf); [www.eiopa.europa.eu/publications/opinion-2020-review-solvency-ii\\_en](http://www.eiopa.europa.eu/publications/opinion-2020-review-solvency-ii_en)

## Practice

### Impact on securitisation portfolios

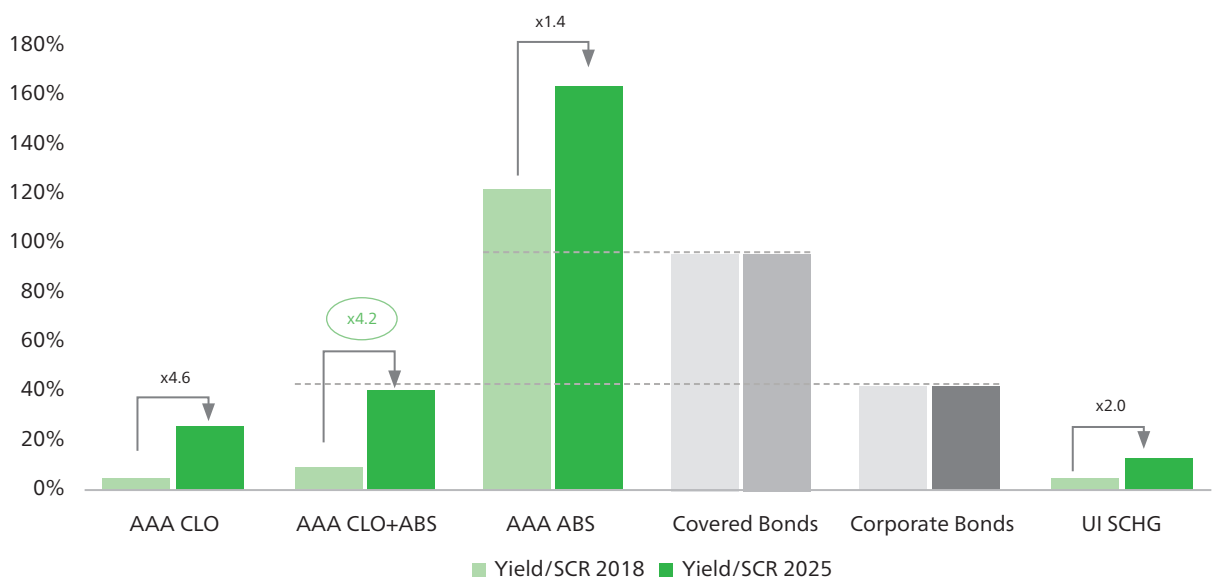
In addition to the relative improvement, the absolute size of the Spread SCR is particularly important for future investment decisions. The following chart shows the effects of changes in the Spread risk sub-module for selected securitisation portfolios. The yield/SCR ratio also helps to classify the attractiveness, especially in comparison to a representative portfolio of corporate bonds or covered bonds.

### Securitisation compared to covered and corporate bonds



Change in Spread SCR for selected credit portfolios; source: SolvencyAnalytics

### Yield/SCR: Significant improvement



Change in the yield/SCR ratio for selected credit portfolios; source: SolvencyAnalytics

Under the new regime, securitisation portfolios have significantly lower Spread SCRs than under the previous calculation methodology.

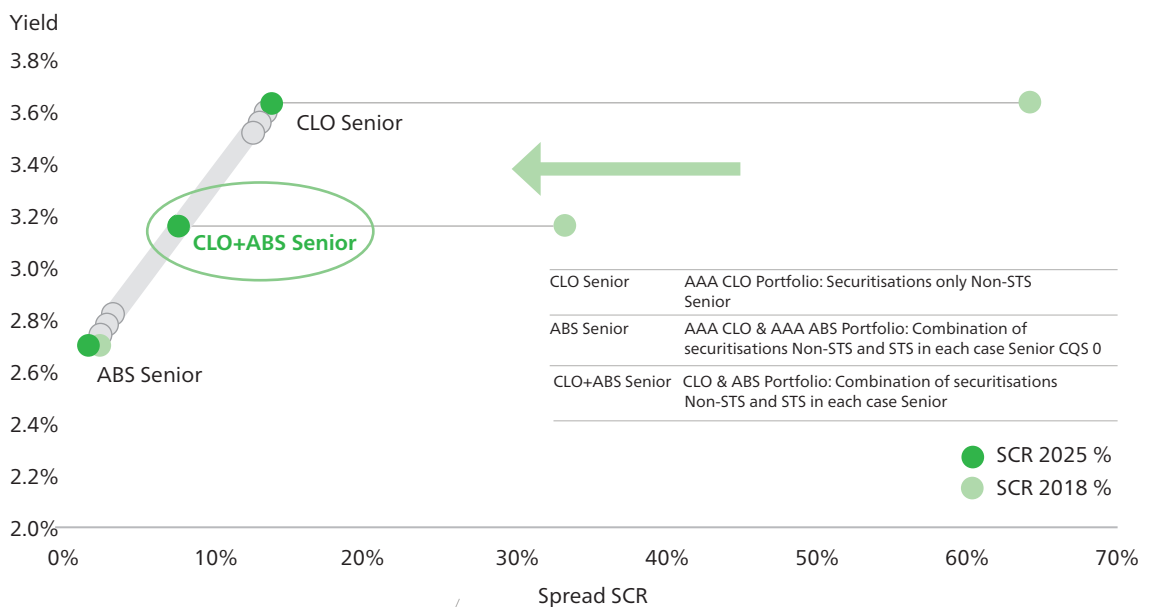
Portfolios with a high proportion of non-STs positions that are also senior and have a correspondingly high credit quality (e.g. AAA CLO) can benefit disproportionately from the new regulation.\*

Similarly, STS positions (ABS/RMBS) that enjoy particular regulatory advantages in the senior segment can once again benefit significantly from the new regulations. In terms of the yield/SCR ratio, senior STS positions can now outperform covered bonds.

**A combination of STS senior and AAA CLO securitisations delivers a yield/SCR ratio comparable to corporate bonds and can generate excess returns.**

If we analyse the possibility of a combined strategy in greater depth, it becomes clear that the Spread SCR reduction compared to the current regulation will primarily result from the AAA CLO positions (reduction from approx. 65 per cent to 14 per cent Spread SCR), which also deliver a high return contribution. The addition of ABS positions that are favoured by regulators leads to a further Spread SCR reduction in the portfolio context due to their attractive yield/SCR ratio, which is further increased under the new regulation (increase from approximately 122 per cent to 166 per cent yield/SCR). Depending on the yield/SCR appetite, the two sub-portfolios can be combined as desired and can lead to an attractive yield/SCR ratio at the portfolio level while simultaneously generating a lucrative absolute return level.

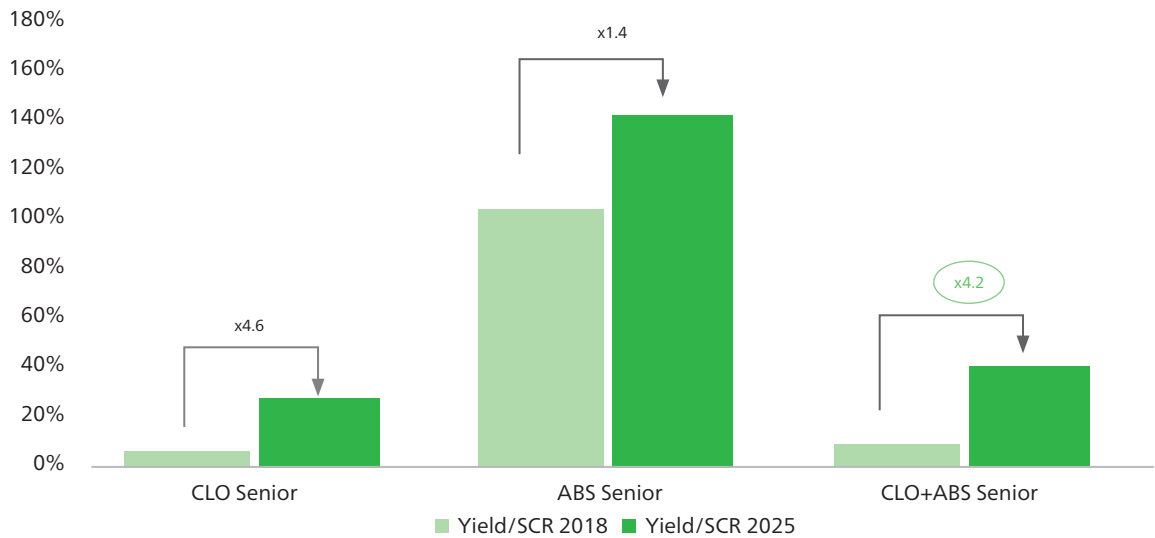
**Combined securitisation portfolios (senior)**



Change in Spread SCR for senior securitisation portfolios; source: SolvencyAnalytics

\*Detailed information on the opportunities and risks of investment funds in the securitisation asset class can be found on page 9.

## Yield/SCR: Significant improvement



Change in the yield/SCR ratio for senior securitisation portfolios; source: SolvencyAnalytics

## Conclusion

The Spread SCR between securitisation portfolios and traditional bond classes is being harmonised. In particular, STS senior (ABS) are on a par with covered bonds, and non-STs senior tranches (CLO) are reaching the levels of corporate bonds.

**Non-STs positions of the highest credit quality (CQS) stand to benefit most from the new regulation and will see the largest absolute Spread SCR reduction.**

Although the yield/SCR ratio for non-STs positions has improved significantly, it remains considerably lower than for STS positions, confirming the regulatory preference for STS structures as an 'efficient Spread SCR anchor' (before and after Solvency II review).

Investors can derive the greatest benefit from regulatory improvements through actively managed mandates. In this context, the identified sub-portfolios can be combined as desired based on yield/SCR considerations. In addition to the variables discussed here – securitisation type, seniority and rating – credit duration, in the form of weighted average life (WAL), can also be taken into account individually in portfolio construction. Union Investment's Credit Solutions team will be happy to take the time to tailor your investment requirements to your specific needs.

## **Opportunities and risks of investment funds in the securitisation asset class**

### **Opportunities**

- Attractive yield premium compared to corporate bonds through the collection of complexity and liquidity premiums
- Limiting interest rate risk
- Attractive returns despite low interest rate duration
- Low historical default rates for European securitisations
- Diversification effect through access to alternative types of credit

### **Risks**

- Market-related price and yield fluctuations as well as credit risk of individual issuers/contractual partners
- Illiquidity of assets
- Increased price fluctuations due to the composition of the funds

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