PRIVATE RISK SHARING AND TRANSFER: THE ROLE OF SECURITISATION

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Insurance regulatory framework for securitisation

The securitisation market in Europe, while smaller than pre-2007 levels, is now of higher quality and better regulated. Despite efforts to facilitate insurer and reinsurer investments through preferential treatment for Simple, Transparent, and Standardized (STS) securitisations under Solvency II, the appetite for securitisation investments remains low. Five years after the regulatory change, securitisations are an immaterial asset class for the average European insurer.

According to an analysis that the Joint Committee (JC) of the European Supervisory Authorities carried out in 2022, most insurers cite mismatched risk-return profiles and asset-liability management preferences as reasons for limited interest in securitisations.

The JC's analysis, based on responses from 98 European insurance and reinsurance undertakings, stakeholder input, and an open consultation, aimed at assessing the impact of recent changes, especially the introduction of Senior Simple, Transparent, and Standardized (STS) securitisations in 2019.

The JC supports the objective of reviving the EU securitisation markets for insurers prudently. However, despite acknowledging the low participation of insurance undertakings in the securitisation market, the JC did not recommend changes to the current Solvency II framework for the prudential treatment of securitisation.

Concerning the key findings from the advice on the investment behaviour of insurance undertakings, approximately 12% of European standard formula insurers have investments in securitisation, with around 60% investing below 1% of their total assets. The introduction of STS securitisations in 2019 has not had a significant impact on insurers' investment behaviour. While 37% of respondents express an intention to increase securitisation investments in the next three years, the majority foresee no change. The Solvency II framework does not appear to be a significant driver for insurers' investment activity in EU securitisation, with preferences on risk-return profiles and asset-liability management.

The appropriateness of the framework is likely to stay on the regulatory agenda.

On the topic of the assessment of capital requirements, the evidence does not support a change in the calibration for securitisations meeting STS criteria or for the non-STS segment based on historical spread volatility analysis. The JC concludes that the current framework is fit for purpose, and no changes are warranted at this time.

Moreover, the analysis explores potential changes to the risk sensitivity of the capital calibration for mezzanine and junior tranches of STS securitisations and senior and non-senior tranches of non-STS securitisations. The JC suggested no changes to the existing framework due to uncertainties about their effectiveness and the potential high cost, considering the low investment volumes and industry participation.

The European Commission sought an assessment of whether Solvency II could align with the Capital Requirements Regulation's securitisation framework. Also in that respect, the JC proposed no changes to the existing framework, citing concerns about increased complexity, uncertain effectiveness, and high potential costs.

In summary, the JC recommended maintaining the status quo within the Solvency II framework for insurers' prudential treatment of securitisation. The analysis indicates that proposed changes may not be effective or justified at this time, considering the complexity of the existing framework and the low volume of investments in the securitisation market by insurers. The survey carried out with (re)insurers as part of this JC work showed that the main drivers for them to invest are the risk return profile, the matching of the liabilities and the complexity of some of the products. These seem to prevent them from investing, rather than the capital requirement.

A more recent development is that the outcome of the Solvency II review might include a request to review the capital requirements for securitisation investments in Solvency II. Such a review could for example consider a more granular set of risk factors depending on the ranking of the securitisation tranches or differentiating different types of non-simple, transparent and standardised securitisation depending on their risks. Provided the availability of data, EIOPA stands ready to provide technical support to such a risk-based and evidence-based review.