Securitisation: An appropriate treatment to ensure policyholder protection

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What is special about securitisations is that they should not be special. In other words the prudential framework for insurers, including capital charges, should reflect the riskiness of the securitisation. Only through such treatment can the principal aim of protecting policyholders be best realised.

Not treating securitisations does not mean discriminating against them. Insurers and pension funds should have the opportunity to invest in securitisations. Indeed where justified Solvency II makes a risk-based distinction in its treatment of spread risk between asset classes. EIOPA provided advice on the recalibration of spread risk charges for the identification and calibration of infrastructure investments in September 2015 and infrastructure corporate investments in June 2016; on reducing reliance on external credit ratings and the treatment of exposures to regional governments and local authorities in October 2017; and on the treatment of unrated debt in February 2018.

EIOPA provided advice on more favourable but still prudent treatment of securitisations as long ago as 2013. EIOPA proposed a category of securitisations with lower capital requirements as there is clear evidence that many securitisations displayed lower spread volatility and performed well from a fundamental credit risk perspective. This advice was subsequently implemented. These qualifying securitisations have to meet a number of criteria on their structure, the quality of the underlying assets, underwriting processes, and on transparency. In the meantime insurers among others have benefitted from the introduction of simple, transparent and standardised (STS) securitisations, though use has not yet been significant.

EIOPA’s most recent review of the EU’s prudential framework for insurance did not recommend disturbing the current treatment of securitisations nor indeed the treatment of spread risk more generally. Nonetheless, securitisations will benefit from some broader changes being proposed. For example, one recommendation is to simplify the calculation of the risk mitigating impact of a number of techniques including securitisations.

All these measures reflect that securitisations are likely to be a relatively small – 2.4 per cent of overall investments by insurers at end-2019 – but material area for insurers.

Ensuring a well-functioning and stable insurance sector is part of a robust financial services sector in Europe. A risk-based regulatory framework is fundamental to achieving this and to ensuring, both policyholder protection and policyholder trust in the sector. EIOPA’s advice and activity on the areas of securitisation will always follow these considerations so that Europe’s insurance sector works for the benefit of people, business and society.

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