News Release

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Through Private Risk Sharing, Banks Protected €18.5 Billion of Junior Tranches in Synthetic Securitizations in 2023; Further Activity Will Depend on Regulation and Global Banking Needs

New York, NY – Banks, working with investment funds, pension funds and credit insurers, executed 89 synthetic securitizations for Significant Risk Transfer (SRTs) globally in 2023, protecting €18.5 billion in First Loss and Mezzanine tranches in underlying pools of loans worth €207 billion, according to the IACPM's latest synthetic securitization survey on SRT transactions. The protection amount is higher than in 2022 when banks participated in SRTs covering €16.3 billion of First Loss and Mezzanine tranches in underlying pools of €213 billion assets.

"The continuing interest in this activity is a testament to the value banks find in SRTs, the ongoing oversight by regulators and the collaborative partnerships investors have built up with issuing banks," commented Som-lok Leung, the Executive Director of the International Association of Credit Portfolio Managers. "Banks are able to safely transfer risk and recycle regulatory capital to make new loans and help grow global economies."

Over the eight years since the IACPM began collecting data, 2016 to 2023, the 40 banks included in the survey have issued 507 synthetic transactions, mitigating risk on more than €1 trillion of assets and protecting €82 billion of First Loss and Mezzanine tranches.

Roughly half of the transactions were conducted in the European Union in 2023, which continues a regional trend in place since the IACPM began its research. Asset classes covered by SRTs typically fall into three categories. Business finance, which includes corporate and small to medium sized business loans, is by far the largest asset class, covering 80% of the market. Specialized lending, which is typically project and object finance, in addition to income-producing real estate lending, remains significant, although not quite as large as in previous years. Finally, residential mortgages and other retail loans have been a growing asset class over the past couple of years.

"The average risk-weight on these securitized loans remains stable at 63%, which reflects the large share of corporate and SME loans included in the underlying pool of assets in these transactions," noted Mr. Leung. "At the same time, the increasing number of EU regional and North American banks issuing SRTs is raising the amount of retail and mortgage loans covered by risk sharing transactions."

Private investment funds, many of which work on behalf of pension fund clients, remained the dominant sellers of credit protection in 2023. Additionally, pension funds are also directly investing in SRT transactions. The credit arms of non-life (re) insurers have also shown an increasing appetite to provide protection on SRTs.

"Despite a generally forecasted increase in corporate default rates," commented Mr. Leung, "private investment funds, along with pension funds, have continued to show interest in SRT transactions. As noted previously, investors have built up long-term relationships with issuing banks and fully understand the risks, as well the risk-adjusted rewards, of these transactions."

Further growth in the amount of SRT transactions is mostly dependent on the supply side from banks. How many transactions issuing banks complete will depend on their need to recycle capital in order to meet the demands of their customers, in addition to final regulations which will determine the amount of available capital relief.

"Banks will largely determine how much the market will grow in the future," said Mr. Leung. “Investors have a continued interest in these transactions, but growth will be limited by the need for and the availability of capital relief.”

Based on insights learned while collecting data for this latest survey, the IACPM generally expects the amount of protected tranches in 2024 will continue to grow similar to the previous year. That depends, though, on final Basel 3 regulations, ongoing discussion in the EU, UK and other jurisdictions regarding Capital Requirements Regulation and whether large US banks will return to the market, as the banks await final US Basel 3 rules.

Please click here for a link to the IACPM Survey: https://iacpm.org/private-risk-sharing-exceeded-e1-trillion-of-cumulated-volumes-between-2016-and-2023-despite-ongoing-uncertainties-in-final-regulatory-treatment/

About IACPM

The IACPM, with over 144 member institutions located in more than 32 countries, is a professional association dedicated to the advancement of credit portfolio management. The organization’s programs of meetings, studies, research and collaboration are designed to increase awareness of the value and the function of credit portfolio management in financial services worldwide, and to discuss and resolve issues of common interest to its members.