EC Securitisation Package June 2025

Key success factors for real economy along the SIU Business case of Unfunded Credit Protection by insurers

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Real economy impact of securitisations in the Savings and Investment Union

Approach

- The multi-lanes bridge separating funding and risk sharing per asset class
- Targeted volumes and foundations for a safe and growing securitisation market
- Critical success factors per asset class along the SIU bridge

Business case: Unfunded SRT insurance

- Eligibility to STS safeguards and to ‘resilient’ transactions

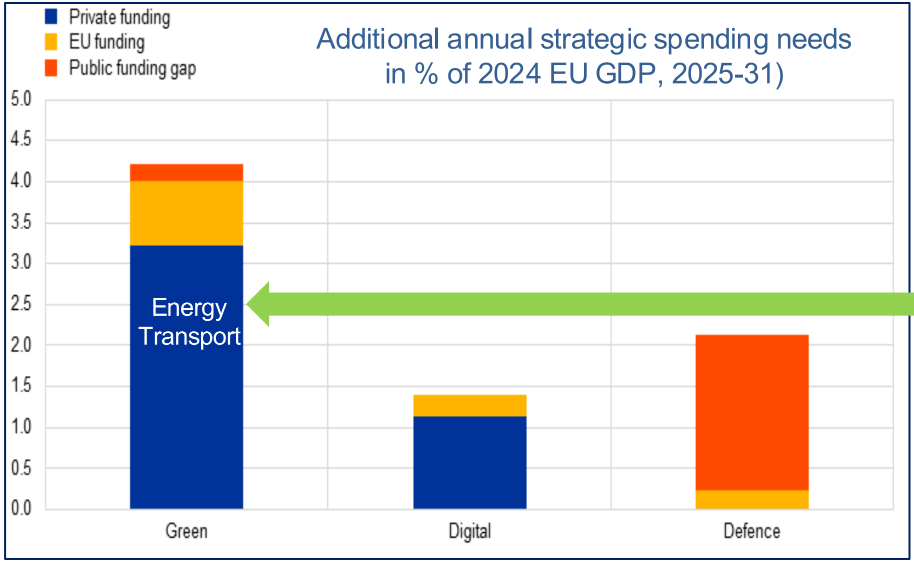
General approach to identify **key success factors** in a Savings and Investment Union perspective

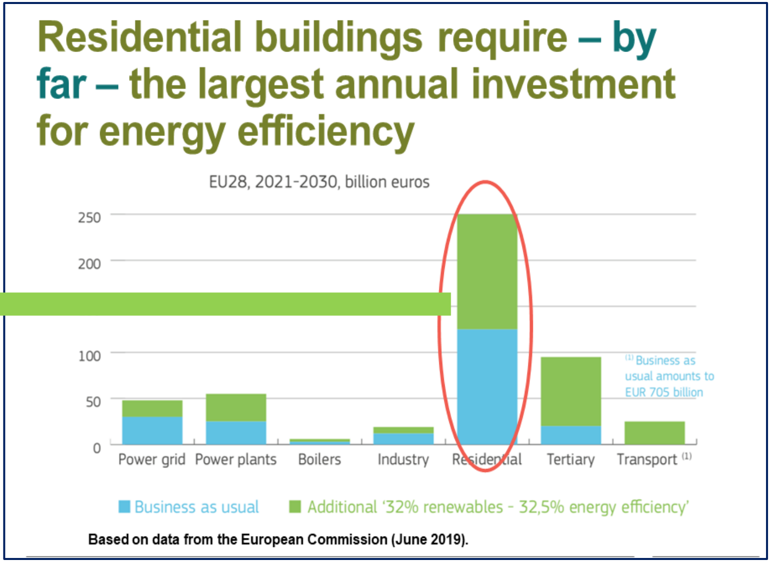
In the SIU, securitisation aims at financing **illiquid** assets by separating the flows of **funding** and **risk sharing** per asset class

Examples: Mortgages for housing finance, loans for SME / Corporate and infrastructure finance, etc

EU strategic investment needs encompass all types of debt, but...

- EU strategic needs have surged to almost **€ 1,2 trillion/year** over the period 2025-2031
- **Private funding** is crucial, with € 4 trillion of these cumulated green, digital and defence investments
- Banks will play a pivotal role, with 60% of debt financing for corporations and 80% for households
- Buildings account for ~40% of EU energy use => Financing **housing** renovation is one of the cornerstones





Sources: European Commission, European Parliamentary Research Service, NATO, European Investment Bank (EIB) and ECB staff calculations.

Foundations for a safe & growing securitisation market in EU SIU

Financing EU core **illiquid** assets by separating the flows of **funding** and **risk sharing** can be effectively achieved for lenders, investors and insurers if the conditions below can be fulfilled :

1. Financing mortgages, SME/Corporates and infrastructure require different funding and risk sharing solutions to fit both issuers' and targeted investors' requirements
   => **the multi-lane bridge of the SIU should be designed to be effective per asset class**

2. Risk sharing on junior tranches is driven by banks' **supply** (i.e. capital release), while funding of senior tranches is driven by cash investors' **demand** (i.e. price and liquidity). Therefore, structuring features specific to synthetic SRTs, traditional securitisations and covered bonds are **different** and **complementary** to enable and scale-up both funding and risk sharing per asset class.
   => **Different funding and risk sharing solutions can be combined to finance the same exposures**

3. Public, private capital markets and insurance markets enable to reach out to the largest investor base, covering all asset types, maturities, risk/return and liquidity requirements of banks' partners
   => **Public, private capital and insurance markets are necessary and complementary**

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As a tool to redeploy savings into the real economy, securitisation can improve competitiveness and financial stability if...

Redeployment of savings into EU real economy (SIU)

Borrowers

- Can get **broader and easier access to finance** to invest in their green, digital and security transitions

Banks

- Can **finance and release capital on all core portfolios** by effective solutions for 1) funding and 2) risk sharing

Non Banks

- Can align **risk/return** and **liquidity** with investors' expectations
- Can strengthen portfolio **diversification** of non-life insurers

Retail and institutional investors
(For funding or funded risk sharing)

Non-life insurers and reinsurers
(For unfunded risk sharing)

Monitoring of changes in **financial stability**

The SIU securitisation lanes

Illustration : Housing finance

Critical for banks as issuers

Critical for cash investors

Critical for insurers' UFCP

Real economy
Households

Residential Mortgages

Housing Finance

Solutions for banks ?

Alternative 1
Floor-to-floor < 5%
UFCP eligibility to STS and resilient

Alternative 2
Floor-to-floor < 5%

Funding and Risk Sharing Instruments

Funding by covered bonds

Risk sharing by SRT insurance on collateral

Funding by senior RMBS

Risk sharing by junior RMBS

Funded investors or unfunded insurers

LCR, CRR, Solvency 2

UFCP eligibility to STS and resilience

Due diligence, UCITS limits, LCR, Solvency 2

Due diligence, sanctions

Alternative 1 **: With €3,5TN covered bonds outstanding, unlocking banks' capacity to release capital on SRT tranches of resilient and STS transactions can enable to finance trillions of new mortgages, while benefitting of insurers' longstanding experience on US GSEs Credit Risk Transfers**

Alternative 2: Next to risk sharing, investments in senior RMBS fits also the SIU objective to recycle retail deposits into life insurance, pension and UCITS funds investing in senior tranches of EU RMBS

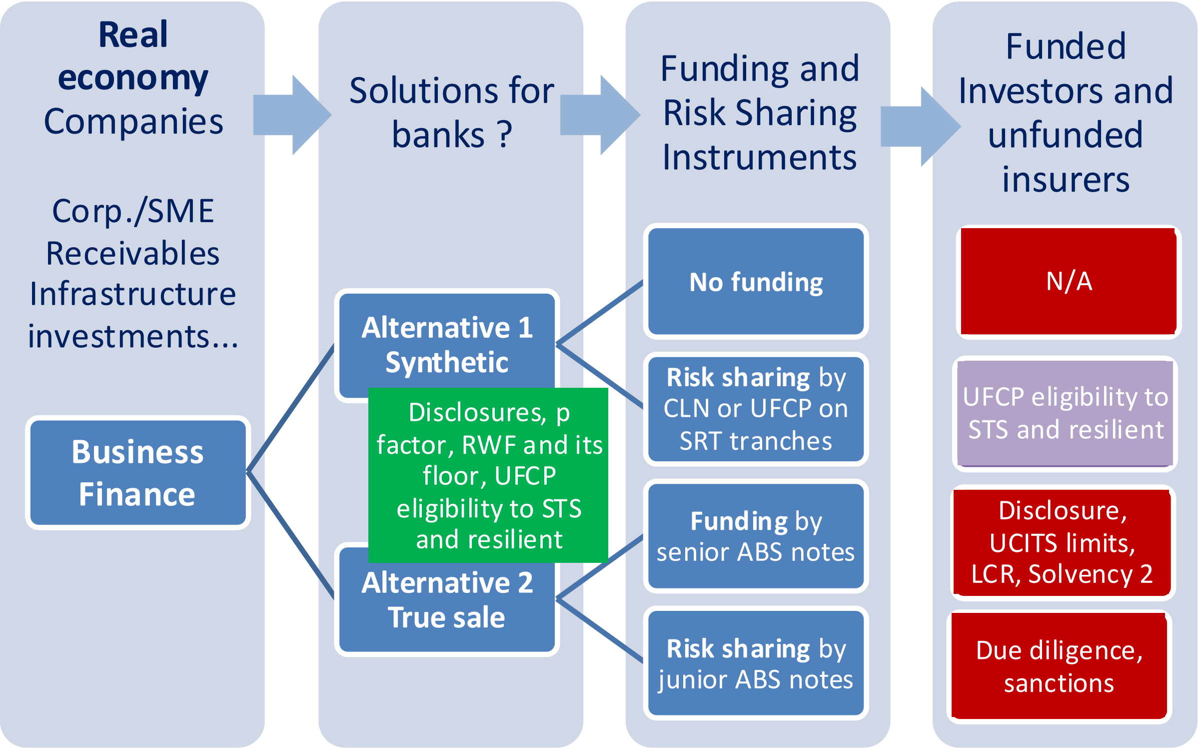
The SIU securitisation lanes

Illustration : Business finance

Critical for banks as issuers

Critical for cash investors

Critical for insurers’ UFCP



Alternative 1 **: Structure used since many years for Significant Risk Transfer and Capital Release on high RW density assets which cannot be transferred to a SPV (SME/Corporate loans, Infrastructure and project finance, etc).**

Alternative 2**: Traditional securitisation can work on assets which can be transferred to a SPV, like receivables, car loans, etc.**
A true sale and a synthetic securitisation can be executed on the same exposure to fit banks’ and investors’ requirements for effective funding and capital release

Key concerns on ECB opinion paper

- Synthetic SRTs do increase banks' lending capacity
  - Capital is the main constraint of EU banks, not funding
- SRT market size is far from generating systemic risks
  - SRTs (2% of EU banks assets) might grow to 5% before being limited by a 4% average leverage ratio
- 'Non-STS' does not inherently imply opacity and complexity
- A floor-to-floor of 5% will not allow the securitisation of low-risk assets
  - Supporting housing finance by covered bonds or traditional securitisation will not enable to share risk on the underlying mortgages
- The 'Resilient position' definition excludes most synthetic and many true sale transactions
- On unfunded SRT insurance
  - ECB is re-introducing a CRR3 cliff-edge in insurance eligibility to safeguards
  - Insurance concentration risk is the consequence of too narrowly defined safeguards
  - Insurance contagion risk is lower than with other types of financial institutions
- The ECB does not factor in its own supervisory and monitoring role

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Business case:

Growing unfunded insurance protection for the benefit of the real economy, without compromising financial stability

Business case : Eligibility of Insurers' UFCP in EU Package

- **Current status and challenges of EU insurance SRT market:**
  - **17** insurance groups protect about **€ 6 bn** of SRTs by YE 2024, i.e. 10-15% of the total SRT exposure transferred by European banks. Transactions are mostly syndicated and reinsured.
  - All non-life insurers are diversified, rated CQS 1 or 2, and Solvency 2 regulated. SRT insurance is an extension of insurance on unrated borrowers and on mortgages securitisations (CRTs) of US GSEs.
  - Insurers are excluded from the EU STS market (Half of SRT issuance), and protect non-STS SRTs on housing and business finance, notably for smaller banks or in smaller Member States.

Growing a resilient insurance UFCP market requires 1) access to the STS SRTs of a diversified number of robust insurers, and 2) retaining access to 'resilient' non-STS SRTs.

- **Proposed regulatory amendments to grow the insurance SRT market**
  - Survey results on proposed eligibility of insurers UFCP to **STS safeguards**
    => Comparison between EC, Council WG and EP Draft Report proposals
  - IACPM drafting suggestions for eligibility to **STS safeguards** and to **'resilient' transactions**, to build a resilient insurance UFCP market in **size** and in **number of insurers** (diversification)

Survey on eligibility to proposed STS insurance safeguards
Scope of the survey

The survey data was collected on a best-efforts basis for the IACPM and covers:

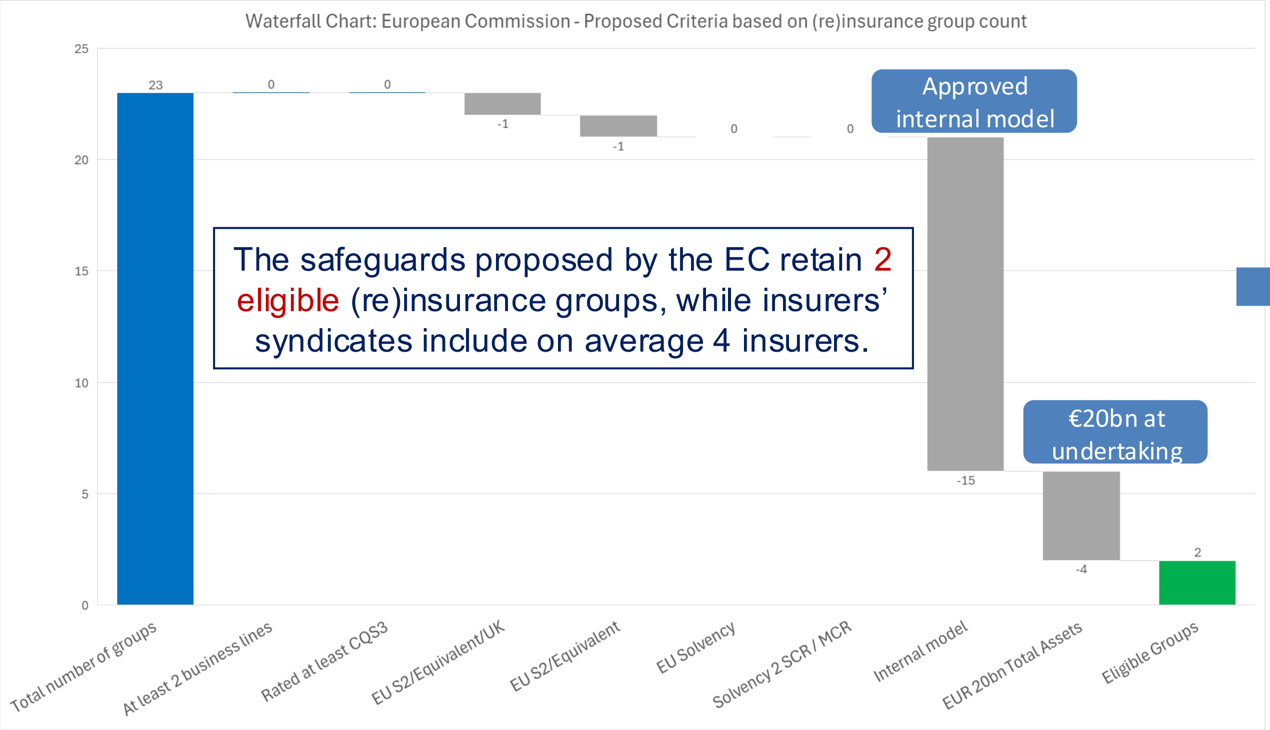
- **53 undertakings**, including 20 Lloyd's syndicates, across
- **23 insurance groups** globally, already active in EU SRT (17 groups with 1 to 4 undertakings), or planning to be active in the short to medium term.

- Financial data (Total Assets) was sourced from publicly available annual reports or AM Best reports, including at the ultimate parent level (consolidated)
- Compliance with EU Solvency 2, SCR and MCR ratios, and availability of regulatory approved internal models, were sourced from SFCR reports
- Where an undertaking was not under the EU Solvency regime, data on equivalent ratios to SCR and MCR was not sourced
- (Re)insurance groups underwrite SRTs directly or through Lloyd's syndicates. Lloyd's Group was excluded from the group counts.
- Eligibility or observability of intra-group private parental supports could not be controlled.

Insurance safeguards survey - Combination of all safeguards

Criteria proposed by the **EC** severely limits eligible (re)insurance groups (1/2)

The approved internal model requirement - alone - excludes 15 (65%) of the (re)insurance groups, and the minimum €20bn size threshold at undertaking level excludes another 4 groups.



Proposed safeguards don't enable insurers' UFCP growth

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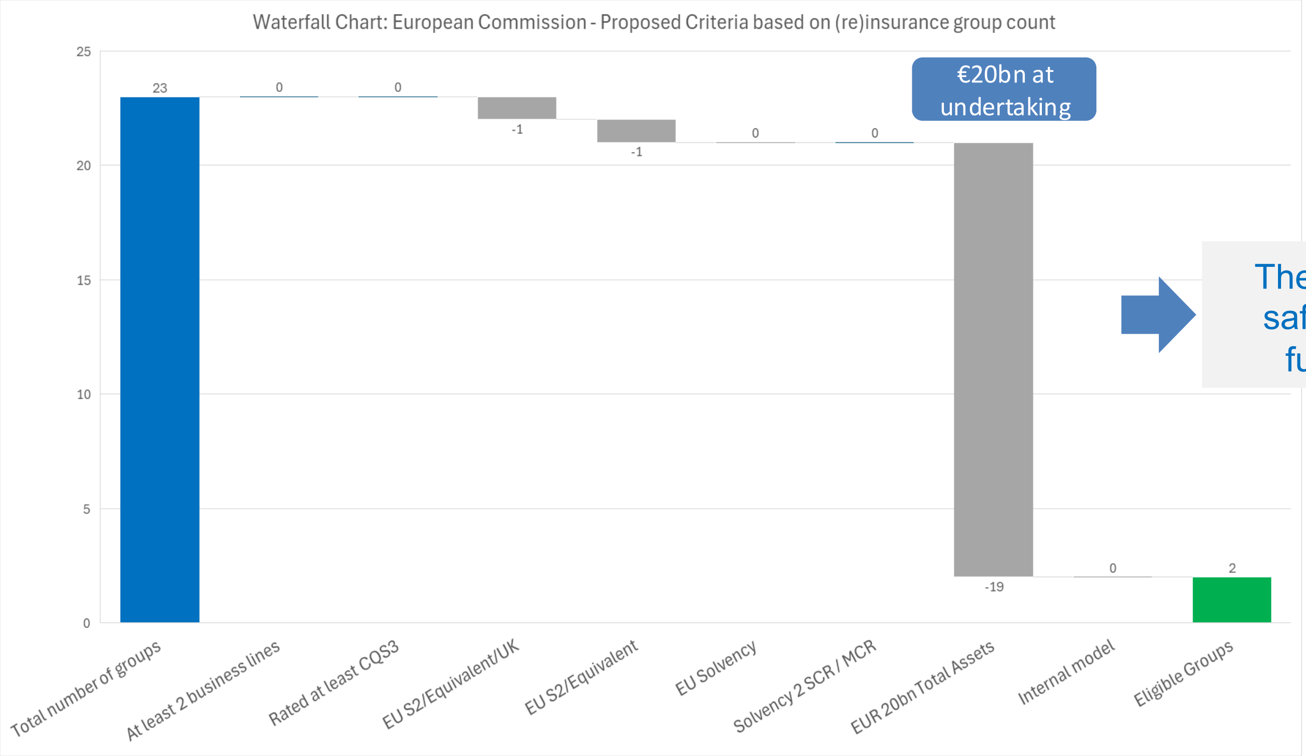
Insurance safeguards survey - Combination of all safeguards

Criteria proposed by the **EC** severely limits eligible (re)insurance groups (2/2)

The €20bn size threshold at undertaking level - alone - excludes almost all currently active groups.

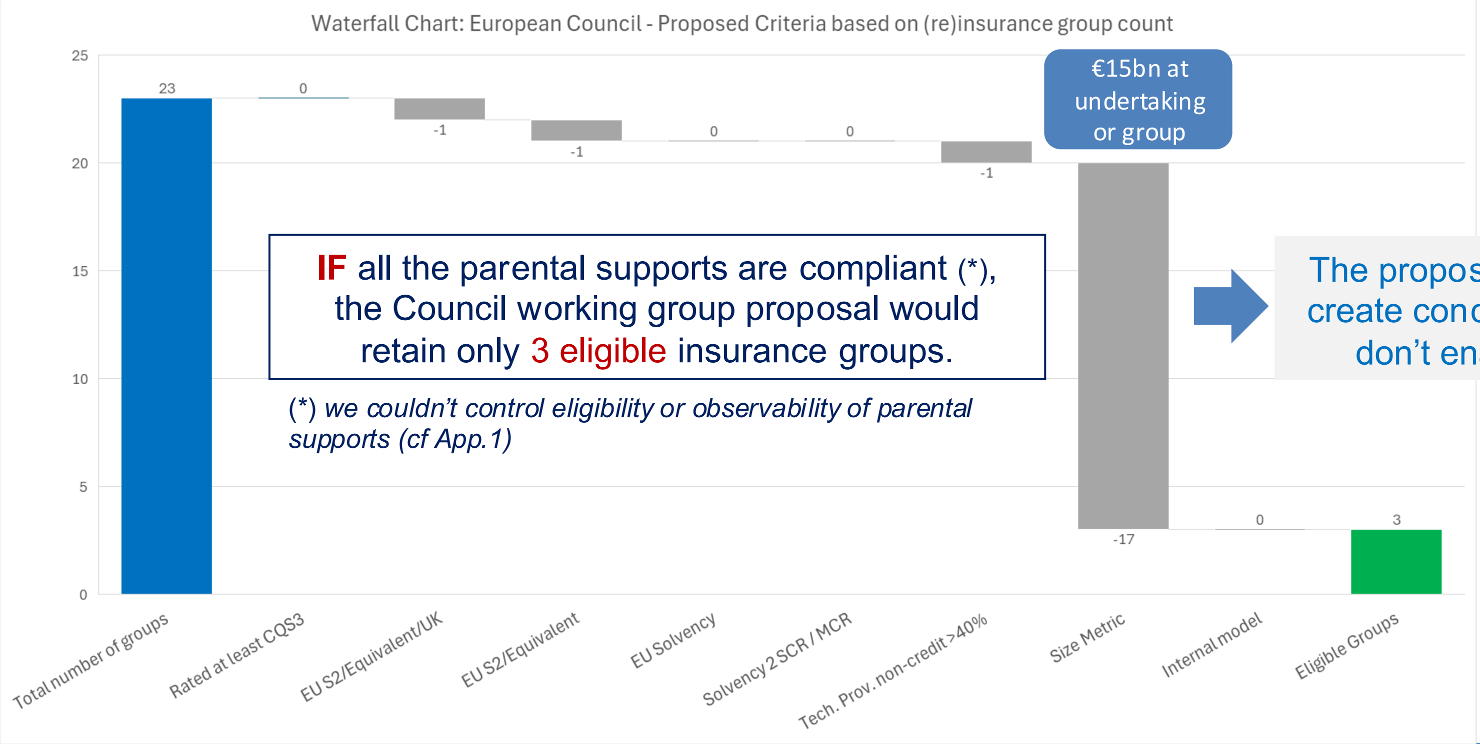


The internal model and size safeguards should both be fundamentally reviewed

Insurance safeguards survey - Combination of all safeguards

Criteria proposed by the **Council Working Group**

The approved internal model alone would also continue to exclude 15 of the currently active groups.
17 groups (65%) remain excluded by the size threshold decreased to €15bn and applied at group level.

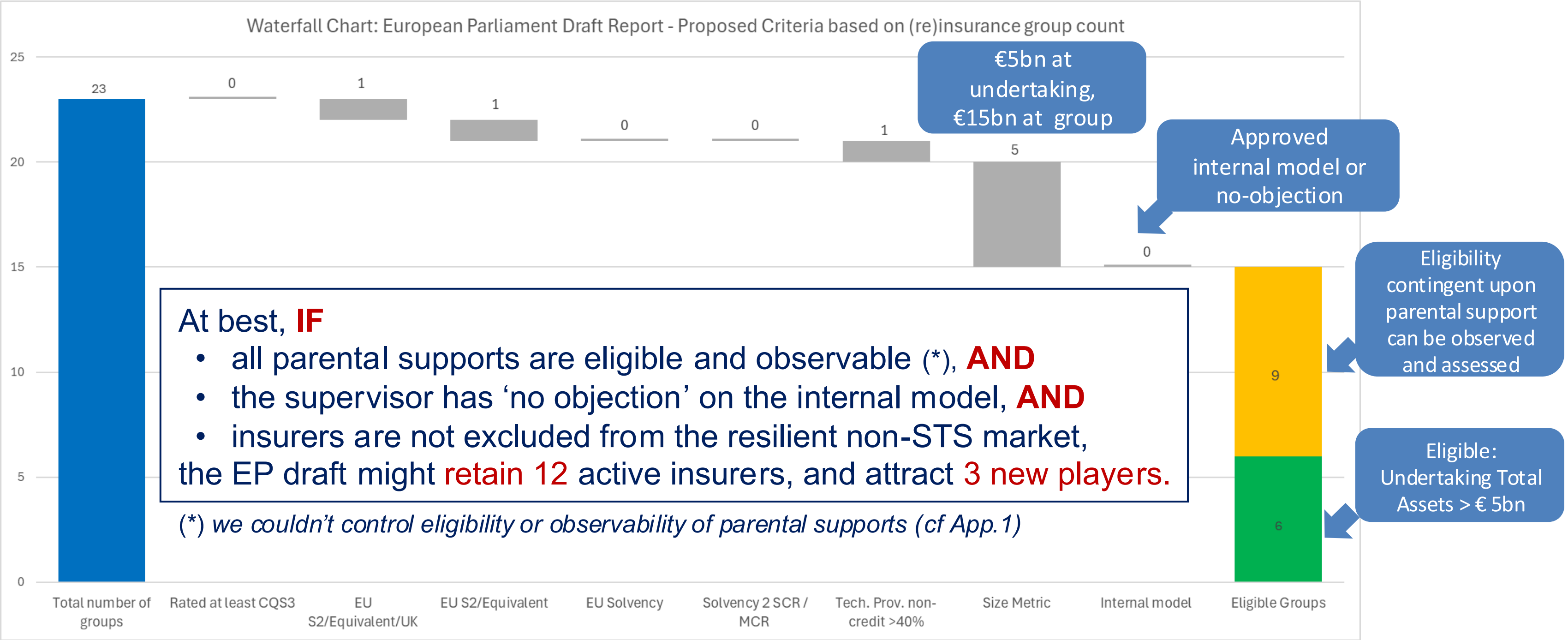


IF all the parental supports are compliant (*), the Council working group proposal would retain only 3 eligible insurance groups.

(*) we couldn't control eligibility or observability of parental supports (cf App.1)

The proposed safeguards create concentrations and don't enable growth

Insurance safeguards survey - Combination of all safeguards
Criteria proposed in the **Draft EP Report**



At best, **IF**

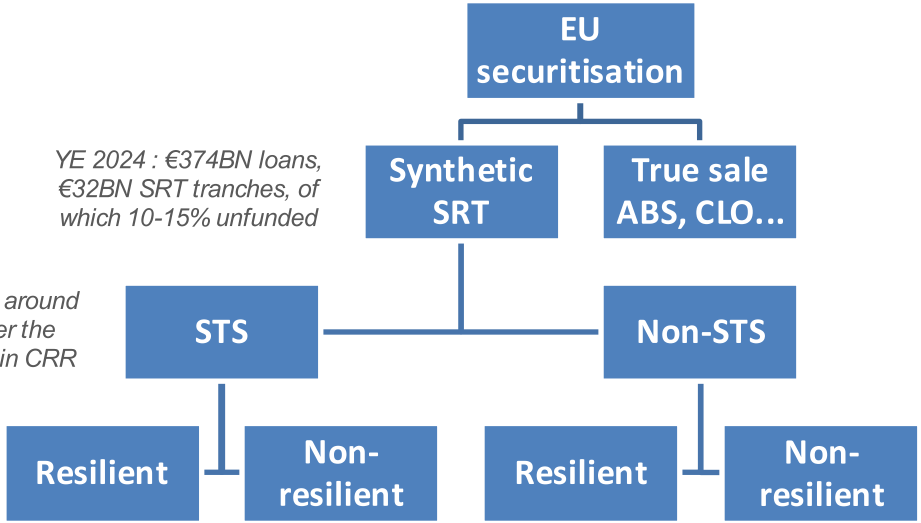
- all parental supports are eligible and observable (*), **AND**
- the supervisor has 'no objection' on the internal model, **AND**
- insurers are not excluded from the resilient non-STS market,

the EP draft might retain 12 active insurers, and attract 3 new players.

(*) *we couldn't control eligibility or observability of parental supports (cf App.1)*

The insurance SRT market might survive but is unable to retain all current players and attract new entrants. More high quality insurers with longstanding experience should be eligible.

Eligibility of insurers to ‘resilient’ non STS transactions is also critical to avoid shrinking their current market



YE 2024 : €374BN loans, €32BN SRT tranches, of which 10-15% unfunded

The volume of STS SRTs (now around 50%) is expected to grow after the review of non-neutrality factors in CRR

At least half of current SRTs will qualify as ‘resilient’ after the reform, this share will increase

	STS – Resilient	STS – Non-resilient	Non-STS – Resilient	Non-STS – Non-resilient
Currently				
EC proposal		+4 safeguards		
CWG	+4 safeguards	+4 safeguards		
Draft EP	+4 safeguards	+4 safeguards		
IACPM	+4 safeguards	+4 safeguards	+2 safeguards	

All proposals reduce <u>current</u> insurers’ access to the non-STS market

Insurers' eligibility to STS and Resilient transactions - IACPM proposal

1. **Objective and Observable Safeguards at inception**
   i. **Approved internal model** or **no-objection** to underwrite SRTs delivered by the NCA of the undertaking during the annual supervisory review (ORSA) and recorded in the STS register
   ii. **Solvency II** regulated and **CQS2** minimum undertaking
   iii. **Diversification :** Min 2 business lines at undertaking level
   iv. **Size/substance**
      - Minimum Total Assets (not AuM)
         - **€5BN** at undertaking level or **€15BN** at parent company level
         - Financial support by guarantee or reinsurance on all SRT unfunded protections
      - If not applicable, max position per SRT: **€50M** for CQS 2 and **€100M** for CQS1 undertakings

2. **Safeguards for eligibility to 'Resilient' transactions** (and related prudential benefits for banks)
   - In **STS** transactions : all above safeguards
   - In **non-STS** transactions : safeguards ii and iii (Solvency 2, CQS 2 minimum, diversification)

=> These proposals are incorporated into IACPM suggested drafting amendments

Appendix 1: (Re)insurance model - Pillars of Financial Support

For (re)insurance undertakings, parental support mechanisms are critical to maintain regulatory solvency, manage capital efficiency and protect balance sheet from catastrophic shocks.

1. Parental Support Mechanisms

- Capital Injections: The most direct method. The parent provides cash or assets to bolster the subsidiary's Solvency Capital Requirement (SCR). Subordinated debt is common because it can often count as "Tier 2" capital under regulatory frameworks.
- Parental Guarantees: provide significant security to policyholders and rating agencies.
- Intra-group Reinsurance: undertaking cedes risk to the parent to reduce its net exposure. Share of risk transferred to the parent can vary (ranges from 30% to 80% and can go up to 100%)

2. Third-Party Support Mechanisms

- Traditional Reinsurance Treaties: external reinsurers to take on a portion of the insurer's portfolio.
- Facultative Reinsurance: reinsurance purchased for a single, specific risk that exceeds the insurer's standard appetite.

- **Observability is limited by the private nature of intra-group contracts, typically non-disclosable to banks.**
- **Interpretation is complex because these agreements often provide partial coverage (e.g., 70% Quota Share) across multiple risk types.**