

Targeted consultation on the competitiveness of the EU banking sector IACPM recommendations

Section 1 (2) - *Question: Are you observing barriers affecting bank financing in support of the economy, including in areas identified as political priorities by the EU or Member States? Please elaborate by providing evidence and identifying economic sectors where access to credit could be improved.*

Yes, we observe regulatory barriers in credit risk mitigation which affect bank financing in support of the economy, notably on financing of long-term strategic priorities like housing, energy, infrastructure and digitalization finance.

1. Although EU banks will remain the core originators of loans, risk sharing with long-term institutional investors through **SRT securitisation** should be facilitated - specifically on residential mortgages, corporate, project and infrastructure finance. This condition doesn't apply only to private banks, but also to promotional and development banks, which are increasingly using SRT solutions to provide blended public/private financing on infrastructure investments.

As evidenced by IACPM's annual Bank SRT surveys¹, EU banks are the main users of SRT securitisations, with more than 50% of the global SRT market, sharing risk on close to €400bn of loans by end 2024. The EU has built a solid franchise and ecosystem since early 2000 by continuous collaboration between banks, investors, insurers, regulators and supervisors, and 90% of the capital released by SRTs is redeployed in new lending, as evidenced in ECB Working Paper n°3210².

Regulators should help EU banks to strengthen their current leadership in SRT securitisation and support real economy financing by enabling effective SRT transactions on a broader range of EU core and long-term assets across all members States.

- The current CRR regulations don't enable effective risk release on assets with RW lower than 40%, while the average RW of EU banks assets is 27%, and 17% for residential mortgages. As evidenced in an empirical analysis conducted on the residential mortgages portfolios of more than 40 EU banks, the **minimum risk weight floor** on senior tranches must be lowered to 2%, to enable capital release on about 40% of EU mortgages, attracting 75% of the RWA of EU mortgages. As funding and risk sharing are conducted through separate

¹ IACPM Bank SRT survey 2016-2024: https://iacpm.org/iacpm_global_srt_bank_survey_2024/

² ECB Working paper 3210: "Synthetic, but how much risk transfer?"

transactions, reducing the minimum RWF to enable effective capital release on residential mortgages will not compromise growth of traditional funding tools like covered bonds or senior tranches of RMBS.

- Also, specifically for long term assets and for smaller Member States, banks need that, next to capital market investors like pension funds, **non-life insurers** are eligible to provide unfunded credit protection on SRT transactions³, both STS and Resilient. However, while the EU is the first banking market to develop SRT insurance, representing now 15% of the EU SRT market (€6bn by YE 2024, only on non-STs transactions), the STS safeguards on minimum asset size and approved internal models, proposed by the Commission in June 2025, are excluding nearly all currently active SRT insurers. Moreover, their exclusion from transactions qualifying as ‘resilient’ is shrinking their access to non-STs transactions.

The technicalities and financial stability impact of the EU Securitisation Package are currently being discussed by co-legislators. On financial stability, the BIS report on ‘*The rise and risks of synthetic risk transfers*’ has confirmed that the leverage ratio will cap EU SRT growth to about 5% of EU banks assets, which is far from creating systemic threats to the economy.

However, transaction structures, banks and investors requirements vary per asset class of the EU economy. We therefore strongly recommend the European Commission to test the effectiveness of the final decisions per asset class along the whole risk transfer chain from banks to investors and insurers. We highlight in the proposal below the key amendments needed, so that regulators can – during this targeted consultation - control that they have all been adequately addressed to unlock sufficient support to banks’ lending to finance the economy.

2. Banks’ support of the economy requires also broader financing of EU companies, i.e. **SMEs and mid-corporates**, at the single borrower level. Because many EU companies are not able to access capital markets, this

³ Insurers can provide credit protection in two different ways:

- either through Credit Risk Insurance protecting the bank on a pro-rata share of the loss on a loan (point 2)
- or as provider of unfunded credit protection on losses in tranches of securitisation aiming at significant risk transfer (point1).

requires broadening banks' capacity to use the loan-level risk mitigation tool specific to SMEs and mid-size corporates, i.e. **Credit Risk Insurance (CRI)**.

- As evidenced in the *IACPM/ITFA 2025 Credit Risk Insurance (CRI) survey*⁴, Europe is also the global leader in credit risk insurance, with 65% of the global CRI market by YE 2024, protecting €129bn of loans, and supporting more than €300bn of credit facilities granted for Corporates, SMEs, project, aviation and trade finance, mostly in the BB-BBB rating range, where CRI is a critical risk mitigation tool. However, for the first time after many years of stable growth (+50% between 2021 and 2024), CRI volumes in the EU started to decline in the first half of 2025, after the introduction of CRR3, which - by enforcing a high (45%) and fixed **LGD on exposures to insurers** - had a negative impact on the amount of capital released by credit insurance, reducing banks' capacity to support lending growth at borrower level. The new rules do not acknowledge nor appropriately calibrate the LGD for the attributes of insurance products, as a bank holding a credit insurance policy is assigned the same 45% supervisory LGD as an unsecured senior exposure to that insurer. Adequately addressing this would resume growth of financing supported by CRI in this way, as 69% of surveyed banks expect to increase their lending capacity if the prescribed LGD was reduced to more appropriate levels recognising the economic value of Credit Risk Insurance.
- Credit exposure to insurance companies is limited by internal credit and contingent credit limits, but also by the regulatory **large exposure limits**. However, contingent credit exposure on insurers is attributed to large exposures in notional amount, like direct exposure, assuming that insurers and all protected borrowers will jump-to-default simultaneously. This assumption, which is an extreme stress scenario, restricts the ability of insurers to support banks' lending growth. The attribution of contingent exposure should therefore be reviewed and become more risk-sensitive, all the more that insurance protections - generally syndicated - facilitate replacement between insurers in case of a downgrade of one of the syndicate members.

To enable banks to further support the real economy, policy makers should address the unnecessarily limiting factors arising from a **fixed LGD too**

⁴ IACPM/ITFA CRI survey : <https://iacpm.org/global-banks-cite-cris-as-one-of-the-most-important-tools-for-credit-risk-mitigation-after-strong-growth-usage-stagnated-in-the-first-half-of-2025/>

conservative for insurers, and the inappropriate attribution of contingent exposure to **large exposures**.

3. Finally, banks must also support relationship lending and large investments required in **large corporates** which have access to equity or debt capital markets, and are notably active in sectors such as energy, utilities, manufacturing, transportation, agriculture and technology. Therefore, banks must grow their capacity to use borrower level hedging solutions, i.e. **credit derivatives**. However, the EU CDS market is underdeveloped, and the situation worsened after implementation of CRR3.

- By fixing the **EAD at 100% on revolving facilities** which are not fully drawn, and not at the economic level of risk estimated by using a Credit Conversion factor, CRR3 required hedging 100% of revolving facilities to enable capital release, increasing the hedging cost for the same economic risk and reducing significantly the effectiveness of CDS hedges. The difference is substantial because, as already indicated in IACPM's response to the CRR3 consultation in 2021, the average economic CCF experienced at default on revolving facilities is estimated at 40%.
- Exposure on credit facilities varies over time, and accounting mismatches occur between CDS hedges (accounted at fair value through profit or loss) and the protected loans (accounted at amortised cost, so not sensitive to changes in credit market prices). Therefore, banks can experience **net short positions** on CDS hedges on loans in banking book, which must be – often temporarily – transferred to trading book and are subject to additional market risk capital requirement. These hedges have however no trading objective but a legitimate risk mitigation objective. This requirement further decreased the effectiveness of CDS hedges.

Proposals

To support banks in financing the economy, we recommend amending the treatment of credit risk mitigation in current CRR and SECR regulations as below. These recommendations will remove overly conservative requirements and enable risk sharing growth in support of real economy financing without compromising financial stability.

1. for (re)insurers acting as protection sellers to banks by **credit insurance**, CRR and SECR regulations should be amended to fit the specific business model of insurers and their regulatory oversight

- *Counterparty risk:*
 - Acknowledge the low risk of insured exposures (i.e. covered by a Credit insurance contracts by reducing the LGD in UFCP provided by (re)insurers in Foundation IRB. The current LGD of 45% on protection provided by regulated insurers should be reduced by half as evidenced by ITFA analyses previously shared with the EBA and the European Commission
 - Article 506 of CRR gives the European Commission the mandate and ability to introduce the necessary legislation to make this happen.

 - *Large exposures:.*
 - Review the approach used to attribute contingent credit exposure on the regulatory large exposure limits, by acknowledging that banks are only exposed to premium risk, and not to joint jump-to-default of insurers and protected borrowers.

 - *STS safeguards:*
 - Review of the size and internal model safeguards proposed in SECR, **currently reducing from 17 to 2 the number of insurance groups eligible as providers of credit protection on STS securitisations:**
 - *Size/substance safeguard :*
 - Minimum Total Assets (not AuM) : €5BN at undertaking level or €15BN at parent company level, with 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 size threshold.
 - *Model safeguard :*
 - Approved Internal Model or Standardised Approach with no-objection to underwrite SRTs delivered by the NCA of the undertaking during the annual supervisory review (ORSA) and recorded in the STS register

 - *Resilient non-STS securitisations :* Enable the eligibility of insurers if they fit the CQS2 rating, solvency 2 and diversification criteria – **to avoid shrinking their current access to the non-STS transactions**
2. for banks acting as protection providers of other banks through **single name credit derivatives,**

- by enabling full capital release on partially drawn facilities at EAD level, calculated as the sum of the drawn exposure plus a risk-sensitive Credit Conversion Factor, and not as the nominal facility level
 - clarifying the definition, scope and regulatory treatment of net short positions of CDS in the banking book thereby removing the requirement for additional market risk capital
3. for **SRT securitisations**, before the end of the legislative process on CRR and SECR:
- Reduce the minimum RWF on senior tranches of STS resilient transactions to 2% to enable capital release by SRT transactions on at least 40% of EU residential mortgages.
 - Test the effectiveness of the regulatory changes along the whole SIU channel specifically on the main asset classes for which banks will need to share risks with investors and insurers to support EU strategic investments (residential mortgage loans, corporate/SME loans, infrastructure finance)

Section 1 (3) - *Question: For the following types of clients seeking financing, how would you assess the ability to access finance and the availability of financing options? What obstacles may limit the ability of banks to provide credit to these clients?*

a) A retail client b) an SME c) A corporate (Non-SME)

As evidenced in our response to question 1 (2), obstacles that limit the ability of Banks to provide credit are

- a) For **retail clients**, the inability to effectively release capital on low RWA residential mortgages and the non-eligibility of non-life insurers to provide unfunded credit protection on STS and resilient *SRT transactions*
- b) For **SMEs and mid-corporate clients**, the failure of the regulation to provide an appropriately calibrated *LGD* for CRI when utilised by Banks to finance these clients. CRI is heavily utilised in the support of both SME lending and Corporate lending, and 45% of Insured Exposures by EU banks was in support of non-investment grade lending.
- c) For **large corporate clients**:
 - the excessively conservative treatment of *CDS hedges*, both in terms of EAD to be protected (with a CCF at 100% on all facilities which are not

completely drawn) and because of the additional capital needed for the market risk of temporary net-short positions, although hedges will be retained up to the loan termination.

- The too conservative LGD for *Credit Risk Insurance* when used to cover loans to corporates, as the required capital is twice higher than observed riskiness.

The proposals outlined in our response to *section 1(2)* for SRT securitisation, credit risk insurance and credit derivatives are fully applicable here.