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Why do banks also need to access the insurance markets for credit risk transfer through unfunded SRT protection (UFCP)?

European banks are increasingly constrained by **regulatory capital**, rather than funding. Their objective is therefore to transfer credit risk while retaining the loans, customer relationships and efficient funding through deposits and covered bonds.

Unfunded insurance provided by non-life insurers is particularly well suited to this objective because it provides **additional balance-sheet capacity through underwriting** rather than funding, in addition to the investment capacity of cash investors like investment funds, pension funds or life insurers**.**

Beyond this, as evidenced in IACPM annual SRT surveys, (re)insurers bring **different characteristics** that are often difficult to replicate in the capital markets:

- **Long-term risk appetite.** Insurers have long-dated liabilities and are generally comfortable underwriting credit risk over 10-year horizons from the liability side, which aligns well with the maturity of many residential mortgages and strategic infrastructure investments.
- **Appetite for smaller and bespoke transactions.** Unlike capital-market investors, who often require large benchmark transactions to ensure liquidity and justify issuance costs, insurers can efficiently underwrite smaller portfolios or bilateral transactions. This broadens access to SRT for medium-sized banks and niche asset classes.
- **Capacity for low-risk tranches.** Insurers are well suited to protecting not only mezzanine but also upper mezzanine tranches, where a funded solution would require investors to lock up significant cash for relatively little return on risk transfer.
- **Reduction of the overall cost of capital relief.** The absence of SPV reduces complexity and structuring costs. An unfunded guarantee avoids the funding cost associated with collateralising the entire protected amount. For highly rated and regulated insurers, this often results in a lower premium for protection than a fully funded note, particularly where expected losses are very low.
- **Execution flexibility.** Bilateral insurance contracts can be tailored to specific and less standard portfolios, like loans originated by smaller banks in frontier markets, with specific attachment points, maturities and amortisation profiles, allowing banks to optimise capital relief more precisely even on bespoke portfolios.
- **Diversification and quality of protection providers.** Combining multiline, regulated and CQS2 rated insurers with unregulated but funded investors increases the overall capacity and resilience of the European SRT market by reducing reliance on a single source of credit-risk capital, and reducing systemic risk as insurers are not sensitive to financial risks as banks and capital market investors.

As a result, (re)**insurers acting as underwriters of SRT risk should not be viewed as an alternative to funded investors, but as a complementary source of long-term credit-risk bearing capacity.**

Unfunded insurers allocate underwriting capacity supported by regulatory capital and balance-sheet diversification, rather than by funding the full nominal amount of protected tranche. Their participation expands the range of portfolios that can achieve SRT—from very large mortgage programmes to smaller SME or corporate portfolios that would not be economical to securitise through the capital markets alone.

⇨ **A deep European SRT market requires both a pool of funded capital markets investors and a pool of unfunded insurance protection providers**, with whom banks develop long term and intense partnerships.

- Capital-market investors are particularly effective at absorbing funded mezzanine risk in large, liquid transactions.
- Insurers and reinsurers complement them by providing long-term, flexible and scalable unfunded protection, especially for lower risk tranches, smaller portfolios and bespoke transactions.
- Together, they allow banks of different sizes and different portfolio profiles to optimise regulatory capital while maintaining efficient funding structures and continuing to lend to households and businesses.