Insurance Advisory

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# Make European securitisation great again!

Updates on the new European Commission proposal regarding the capital treatment of securitisations

## INTRODUCTION

Prior to the introduction of Solvency II, securitisation was a common feature in European insurers' portfolios; today, it is virtually absent. Between 2010 and 2024, allocations to securitisation have fallen from nearly 5% of fixed income portfolios to under 1.5%, with standard-formula insurers almost entirely exiting the asset class. In our view the underlying fundamentals have remained strong, and now the regulatory climate appears to finally be shifting.

Starting in January 2027, Solvency II will likely offer significantly lower capital charges for securitisations, restoring a level of capital efficiency that has long been missing. This long-awaited regulatory shift could pave the way for a meaningful return of insurers to a market they once helped sustain. With the recalibration of capital charges, securitisation may once again provide insurers with attractive yield, credit diversification, and capital optimisation. To seize this opportunity, insurers need to understand the recent changes and why now is the right time to reconsider this underused asset class.

In this paper, we explore the past, present and future of securitisation from the perspective of European insurers. We focus on the regulatory and practical investment dimensions of re-engaging with the asset class.

## WHY SHOULD INVESTORS CARE?

For fixed income investors, securitisations potentially offer:

- **Diversification:** exposure to asset pools not easily accessed via public bond markets, and their correlation with corporate bonds is low at 0.6 (based on monthly historical data since 2017);
- **Yield premium:** higher spreads for comparable rating/duration vs. corporate or sovereign bonds, reflecting compelling complexity and liquidity premia (e.g. senior STS tranches offer circa 35 bps premium over covered bonds and AAA CLOs currently offer 50bps more than BBB-rated corporate bonds);
- **Little interest rate sensitivity:** most European securitisations are indexed to Euribor or SONIA, reducing the duration risk that is traditionally associated with fixed income investing;
- **Self-liquidating nature**: securitisations may offer insurers unique advantages from a cash flow and asset-liability matching perspective. Unlike "bullet" corporate bonds, many securitised assets repay principal gradually, which could reduce reinvestment risk, an especially valuable feature for non-life insurers and reinsurers managing claims volatility needs. The ability to stagger payouts allows insurers to fine-tune exposures and optimise capital efficiency.
- **Robust credit performance:** structural protections have historically resulted in low default rates, even through financial crises.

**European securitisation default rates track record:**

| Sector | Average defaults per annum (1976-2024) |
|---|---|
| EU RMBS | 0.3% |
| EU Auto ABS | 0.2% |
| EU Consumer ABS | 0.1% |
| EU Credit Card ABS | 0.0% |
| EU CLO | 0.1% |

Source: Standard and Poor's, Ratingsdirect as of February 21, 2025 and DWS International GmbH, December 2025

## WHY DOES SECURITISATION REMAIN MARGINAL IN EUROPEAN INSURERS' PORTFOLIOS?

Despite their potential diversification and yield benefits, securitisations remain a niche allocation for European insurers, and regulatory capital barriers are a key factor stifling the market[1].

Empirical data from the 2024 Solvency and Financial Condition Reports (SFCR) highlights the impact of capital calibration on investor behaviour. On one hand, a group of major "internal model" insurers, representing approximately 25% of total general account assets, accounts for 81% of securitisation investments, with average allocations of 2.6%. On the other hand, a similar number group of large standard formula insurers allocates an average of just 0.4%, a figure which has barely moved since 2016 (when Solvency II started to apply across the EU).

[1] Beyond the scope of this paper, there are two other important limiting factors pertaining to red tape, and a negative stigma toward the asset class. Here, red tape is meant as a „catch-all" term to include due diligence requirements, often differing at national level. On the supply front, this translates in a shallower market: over half of the potential volume of so-called STS ABS are actually placed in the market. On the demand front, many insurers lack the dedicated teams or systems to analyse these deals, often relying on specialist asset managers to access the market efficiently.
With regard to the negative stigma associated with ABS the legacy of the global financial crisis continues to shape perceptions. Although the crisis was triggered by poorly structured US subprime deals, the reputational damage extended globally. In Europe, this has fostered persistent caution, with securitisation viewed as complex and resource-intensive. Insurers, especially those using the standard formula, tend to favor simpler, more transparent fixed income. Insurance investment committees often lack the technical expertise to assess structured finance, reinforcing a preference for plain-vanilla alternatives that are often more difficult to source.

**Allocation to securitised assets: internal model vs. standard model insurers**

| Largest internal model insurers | Allocation to securitised assets | Largest standard formula insurers | Allocation to securitised assets |
|---|---|---|---|
| Allianz | 1.1% | CNP | 1.1% |
| AXA | 6.1% | Crédit Agricole Assurances | 0.0% |
| Generali | 0.3% | Poste Vita | 0.0% |
| Munich Re | 2.0% | BNP Paribas Cardif | 0.0% |
| HDI | 2.5% | Assurances du Crédit Mutuel | 0.0% |
| SCOR | 8.5% | Sogecap | 0.0% |
| AIG | 2.5% | Intesa Vita | 0.0% |
| **Weighted average** | **2.6%** | **Weighted average** | **0.4%** |

Source: 2024 Solvency and Financial Condition Reports and DWS Investments GmbH, December 2025

This is because insurers using the Solvency II "standard formula" capital treatment are subject to disproportionately high capital charges, especially if they hold CMBS, CLOs or other so-called "Non-STS" ABS (please refer to the appendix for regulatory definitions). For example, a (junior) BBB-rated tranche of a 5-year duration CMBS attracts a capital charge of 37.5%, 3 times higher than a similarly-rated, similar-tenor corporate bond. As a result, securitisations are often excluded from Strategic Asset Allocations (SAA), despite their potential for diversification and yield enhancement.

On the opposite end of the spectrum, internal model insurers can, subject to regulatory approval, calibrate Solvency Capital Requirements (SCR) for securitised assets based on their own risk assessments, resulting in lower capital charges that better reflect risk fundamentals.

## SIGNS OF A MARKET AWAKENING: THE PATH FORWARD FOR INSURERS

One of the most significant regulatory developments that could reshape the European securitisation landscape is the proposed recalibration of capital requirements for insurers investing in securitisations. The reform aims to better align capital requirements with actual risk.

The proposal introduces:

- An overall lighter spread charge across all securitisations, with reductions ranging from 25% to 79% across different segments; and
- A structural distinction between senior and non-senior tranches within the non-STS category, enabling a more risk-sensitive treatment.

**The European Commission's proposal: a targeted risk-sensitive relief**

| Spread charges current / proposal (% change vs. current framework) | 3-year spread duration | | 5-year spread duration | |
|---|---|---|---|---|
| | AAA | AA | AAA | AA |
| Corporate Bond | 2.7% | 3.3% | 4.5% | 5.5% |
| Senior STS | 3% / 2.1% (-30%) | 3.6% / 2.7% (-25%) | 5% / 3.5% (-30%) | 6% / 4.5% (-25%) |
| Non-senior STS | 8.4% / 6% (-29%) | 10.2% / 7.8% (-24%) | 14% / 9.8% (-30%) | 17% / 12.8% (-25%) |
| Senior Non-STS | 38% / 8.1% (-79%) | 40% / 9.9% (-75%) | 63% / 13.5% (-79%) | 67% / 16.5% (-75%) |
| Non-senior non-STS | 38% / 22.2% (-42%) | 40% / 27% (-33%) | 63% / 37% (-41%) | 67% / 45% (-33%) |

Source: Draft delegated regulation - Ares(2025)5843909 and DWS International GmbH, December 2025

The key takeaways are as follows:

- **Senior STS tranches receive covered-bond capital treatment.** Capital requirements for AAA-rated exposures are reduced from 1.0% to 0.7% per year of spread duration (for durations of up to 5 years), and, for AA-rated tranches, from 1.2% to 0.9% effectively aligning them with covered bonds, but offering a higher yield (+65/+75 basis points over Euribor, based on current valuations). In a nutshell, the new calibration enhances senior STS capital-adjusted returns[2];
- **Senior "AAA" non-STS tranches receive "BBB" Corporate capital treatment**. Capital charges per year of spread duration drop dramatically from 12.5% to 2.7% (for durations up to five years), narrowing the gap with traditional fixed income instruments such as BBB-rated corporate bonds. With spreads around +120 basis points over Euribor for AAA CLOs or even higher for senior non-STS securitisations such as AAA-rated CMBS, these assets now offer compelling relative value;
- **Non-senior STS and non-STS tranches attractiveness does not improve sufficiently**. The proposed changes bring only modest improvements to STS securitisations (e.g. backed by auto loans, credit cards, and residential mortgages), with capital reductions in the 25-30% range (depending on duration and rating), not enough to justify the step from senior STS to non-senior STS. Moreover, junior non-STS tranches still face steep capital loads. For example, a AA-rated CLO with 5-year duration attracts 45%, higher than investments in OECD equities.

Importantly, the capital efficiency of certain securitisations could benefit from a multiplier effect due to lower risk margin reforms, which, especially for life insurers, could translate in a cost of capital reduction of 1.25% (from the current 6% standard assumption to 4.75%).

[2] In addition, the EC has proposed lighter, principle-based due diligence requirements and greater reliance on the STS label itself, particularly when verified by an authorised third party.

## CAPITAL EFFICIENCY IN ACTION: TWO PRACTICAL USE CASES

### Use case #1: "AAA" (aka Senior) STS allocation as a short-duration SAA

**Indicative Terms**

| Use case #1 | Target spread | Weighted Avg. Life | Rating | Proposed Spread SCR | Annualised volatility |
|---|---|---|---|---|---|
| 100% Senior & STS-labelled ABS | 3-month Euribor + 60bps | ~3 years | AAA | 2.1% | 0.94% |

Source: Bloomberg and DWS International GmbH, December 2025

We looked at this type of allocation with the lens of a short-durtion insurance investor, aiming for better risk- and capital-adjusted returns. As a starting point, we assumed a hypothetical reference portfolio composed of government bonds, corporate bonds, and covered bonds.

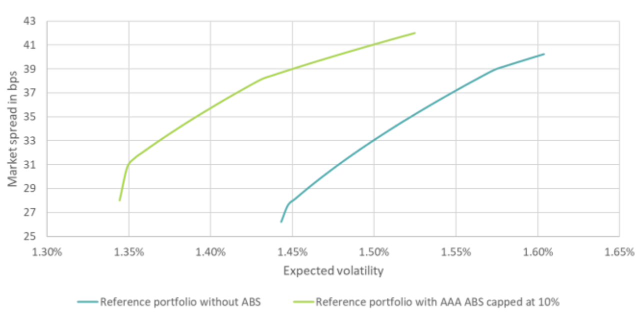
| Index full name | Spread | Duration | Rating breakdown | | | | Spread SCR | Annualised volatility |
|---|---|---|---|---|---|---|---|---|
| | | | AAA | AA | A | BBB | | |
| Bloomberg Euro-Aggregate Treasury 1-3 Year Total Return Index | 0.11% | 1.97 | 31% | 25% | 31% | 14% | 0% | 1.41% |
| Bloomberg Euro-Aggregate Covered Bonds 1-3 Year Total Return Index | 0.32% | 1.94 | 88% | 12% | 0% | 0% | 1.40% | 1.43% |
| Bloomberg Euro-Aggregate Corporate 1-3 Year Total Return Index | 0.57% | 1.92 | 0% | 10% | 42% | 47% | 3.63% | 2.05% |

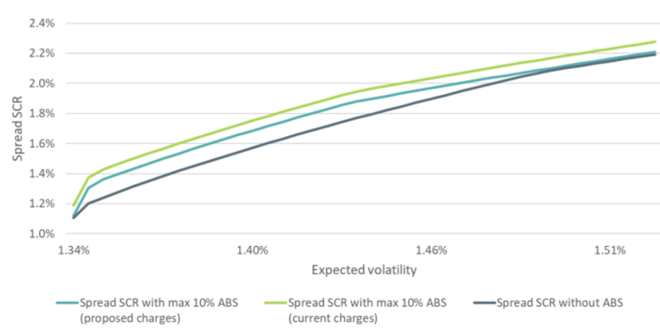
Source: Bloomberg, DWS International GmbH and December 2025

Using both historical data and current (as of September 2025) proprietary long-term capital market assumptions, we then plotted efficient frontiers, searching for the optimal risk-adjusted allocation with and without AAA-rated (senior) STS ABS.

As ABS featured a similar capital weight as covered bonds, but with a higher yield, we had to cap their exposure to 10% to avoid corner solutions.

**Unlocking spread per unit of risk with AAA Senior STS ABS**




Source: Bloomberg, DWS International GmbH and December 2025

The introduction of the AAA ABS allocation into the short-term fixed income reference portfolio resulted in an average portfolio yield increase of 13 basis points across the efficient frontier, without significantly altering the frontier's volatility profile.

Importantly, the ABS allocation still contributed to a small increase in regulatory capital consumption (i.e. the spread SCR of the 10% ABS portfolio vs that of the ex-ABS potfolio) of about 0.1% on average across the efficient frontier, about half of what would have been the case pre-Solvency II Review.

Short-duration portfolios with a higher than 1.5% Spread SCR budget (the majority of the insurance portfolios we see) would have seen no meaningful capital consumption increase, but a market yield improvement, making the ABS case even stronger.

**Use case #2: "AAA"-rated (Senior) CLO allocation**

Indicative Terms

| Use case #2 | Target spread | Weighted Avg. Life | Rating | Proposed Spread SCR | Annualised volatility |
|---|---|---|---|---|---|
| 100% Senior CLO | 3-month Euribor + 120bps | ~3.75 years | AAA | 10.1% | 3.66% |

Source: Bloomberg, DWS International GmbH and December 2025

We looked at this type of allocation with the lens of a corporate bond insurance investor, aiming for better risk- and capital-adjusted returns.

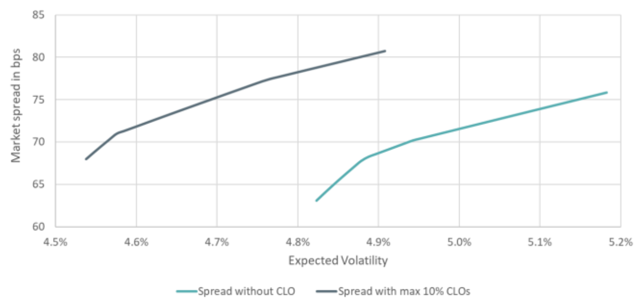
Using the same methodology, we constructed a portfolio made of AA/A/BBB-rated corporate bonds, and analysed the impact of introducing a CLO allocation. Similarly to the ABS use case, CLOs represent a better alternative to BBB-rated bonds, featuring a similar capital charge, but a higher return. Predictably, in the higher-yielding portions of the efficient frontier, this translates in corner solutions skewed towards CLOs. Unexpectedly, though, CLOs dominate also in the lower-risk portion of the efficient frontier, thanks to their diversification benefits vs. corporate bonds.

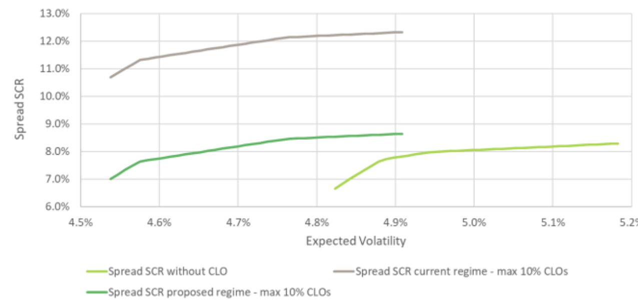
As a result of the above, we capped the CLO exposure to 10% of the representative portfolio.

| Index full name | Spread | Duration | Spread SCR | Annualised volatility |
|---|---|---|---|---|
| Bloomberg Euro-Aggregate Corporate AA Total Return Index | 0.48% | 4.85 | 5% | 4.31% |
| Bloomberg Euro-Aggregate Corporate A Total Return Index | 0.70% | 4.7 | 6.59% | 5.21% |
| Bloomberg Euro-Aggregate Corporate BBB Total Return Index | 0.90% | 4.32 | 10.80% | 5.51% |

Source: Bloomberg, DWS International GmbH and December 2025

**AAA CLOs appear to become an effective diversifier in credit portfolios**




*Source: Bloomberg, DWS International GmbH, December 2025*

The AAA CLO allocation shifted the efficient frontier toward the top left side of the chart, effectively reducing expected volatility and increasing the yield profile. This can be attributed to the diversifying effect of CLOs in corporate portfolios, coupled with attractive valuations (a 50bps premium over "BBB" corporates, based on current market data).

This can also be seen in the Spread SCR chart, where CLOs effectively cannibalised the BBB and A corporate bond allocations, resulting in an efficient frontier with a similar capital consumption, but lower volatility.

## CONCLUSION

The EC's consultation marks a pivotal opportunity to address inefficiencies in the capital treatment of securitisation under Solvency II. By aligning capital charges more closely with actual risk, particularly for senior STS tranches and to some extent senior non-STS, the proposal could unlock significant investment capacity for insurers while maintaining prudential safeguards. For standard formula users, the recalibration would enable a shift toward high-quality, yield-generating assets previously underutilised due to regulatory disincentives. Aligning with internal model peers could generate over €150 billion in additional demand across the sector based on 2024 SFCR data and EIOPA statistics. Securitisations could be the catalyst that mobilises private capital towards the EU strategic ambitions. Within this broader agenda, the EU's initiatives like the Savings and Investments Union and the EC's 2025 competitiveness compass increasingly position securitisation as a strategic channel for long-term investment, enhancing capital efficiency and better aligning structures with insurers' needs in infrastructure and SME lending. European insurers, with their long-term horizon and solvency-aware frameworks, are uniquely positioned to lead this revival.

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## Appendix: UNDERSTANDING THE EUROPEAN SECURITISATION MARKET

### Securitisation in a nutshell

Securitisation allows banks to convert pools of loans to households, consumers, or small and medium-sized enterprises (SME) into securities that can be sold to investors. This process involves transferring assets to a Special Purpose Vehicle (SPV), which issues securities in tranches with varying risk profiles. Investors benefit from targeted exposures and banks gain funding or capital relief, depending on the structure.

### Regulatory context: STS vs. non-STS

The Simple, Transparent and Standardised (STS) label was introduced in 2019 by the Securitisation Regulation (EU) 2017/2402 to identify traditional securitisations that meet a set of clearly defined criteria with regards to asset types, structures, and reporting standards. STS securitisations, e.g. Residential Mortgage-Backed Securities (RMBS), SME loans and auto Asset-Backed Securities (ABS), benefit from reduced capital requirements. In contrast, non-STS securitisations, such as Collateralised Loan Obligations (CLO) and Commercial Mortgage-Backed Securities (CMBS), due to their complexity and/or lack of standardisation, are subject to higher capital charges for insurers and banks.

### A subdued and fragmented market in Europe

While the European securitisation market was robust before 2007, it has since remained subdued and fragmented. Regulatory hurdles, complex documentation, and high capital requirements have constrained both issuance and investor appetite. Unlike the US, where securitisation is a cornerstone of capital markets, the European market is smaller, less dynamic, and concentrated in a few countries and asset types. Most issuance is driven by banks' internal strategies rather than external investor demand, with public deals focused on the UK, France, Italy, the Netherlands, and Spain, and dominated by RMBS and auto ABS.

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Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA, and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.

Loan investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. Floating rate loans tend to be rated below-investment grade and may be more vulnerable to economic or business changes than issuers with investment-grade credit.

Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities.

Mortgage-backed securities represent interests in "pools" of mortgages and often involve risks that are different from or possibly more acute than risks associated with other types of debt instruments. When market interest rates increase, the market values of mortgage-backed securities decline and volatility of the fund may increase. When market interest rates decline, the value of mortgage-backed securities may increase, but could expose the fund to a lower rate of return on investment.

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