

## SECURITISATION IN EUROPE



### ALEXANDRA JOUR- SCHROEDER

Deputy Director-General, DG  
for Financial Stability, Financial  
Services and Capital Markets  
Union - European Commission

## Enhancing the EU Securitisation Framework, paving the way for growth

With future investment needs projected to grow, achieving an optimal allocation of capital is ever-more urgent to enhance the EU's productivity, competitiveness and resilience. A sound and successful EU securitisation market has an important role to play in funding EU strategic priorities and stimulating innovation. Securitisation also allows banks to transfer risk outside of the banking system, thus fostering greater risk diversification within the financial system. However, it is an underexploited tool in Europe. Relaunching this market is consistently identified as a key action by industry, Member States, in the Draghi Report and Competitiveness Compass.

The 2008 financial crisis exposed the risks of complex, opaque securitisation

instruments, and the current Framework was introduced in response: to tackle these risks, increase financial stability and rebuild investor trust. We have achieved these objectives. Nowadays, the framework governing EU securitisations has made the market safer, more transparent, and less stigmatised. The credit performance of European securitisations is comparable to those of similarly-rated European corporate or global sovereign bonds. Default rates of EU securitisations are significantly lower than those of US securitisations, and very few senior tranches have suffered loss.

We recently concluded a targeted market consultation, in which we sought stakeholders' views and experience on the functioning and future of the Securitisation Framework. We received detailed feedback from 133 responses, and these are informing our reflections on the way forward. Overall, the consensus is that the current Framework is too complex and generates high regulatory costs. In particular, market participants report unnecessary burden, onerous due diligence and disclosure requirements, and punitive capital treatment.

**Potential targeted  
legislative changes  
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issuance and investment.**

Overall, the consultation has revealed strong demand for more securitisation activity from EU market participants, but also the need for more simplification and proportionality. There is a real opportunity to further deepen EU capital markets and to enable capital market investors to indirectly finance the EU economy. In the absence of EU action, issuance and investment barriers will continue to inhibit the development of a vibrant EU securitisation market.

So, we are listening, and we are working towards solutions. The purpose of the review is to better enable financial institutions across the Union to increase their use of high-quality securitisation by making the Framework less burdensome, more principles-based, more proportional and more

risk-sensitive, while continuing to safeguard financial stability. Potential targeted legislative changes will focus on the main barriers to securitisation issuance and investment, such as certain transparency, due diligence, and prudential requirements for banks and insurance companies.

However, a revitalised EU securitisation market cannot be achieved by regulation alone. We are counting on industry to work proactively towards a more vibrant and dynamic European securitisation ecosystem. For example, there are plenty of ideas concerning a possible future European or national-level securitisation platform(s). Any such initiative requires careful reflection and collaboration between industry and regulators. We are counting on private sector buy-in going forward as we look to explore new and innovative methods towards strengthening our securitisation market. The review of the EU securitisation framework will be an important step in deepening EU capital markets, freeing up additional lending to EU households and businesses, and building our Savings and Investments Union.



## CHRISTIAN NOYER

Honorary Governor,  
Banque de France

### Revitalizing securitization is a strategic necessity for the EU

The European Council, the Eurogroup, and the ECB have all acknowledged the urgency of relaunching the securitization market. The upcoming European Commission mandate represents a unique opportunity to implement the necessary regulatory adjustments in 2025.

The EU securitization market remains significantly underdeveloped compared to jurisdictions such as the United States and the United Kingdom, where it has rebounded strongly post-crisis. At its peak in 2008, the European securitization market stood at EUR 2 trillion; by the end of 2023, it had shrunk to EUR 1.2 trillion, while the US market grew from USD 11.3 trillion to USD 13.7 trillion over the same period.

This stagnation should not be taken for granted. It stems directly from a persistent excess in prudential charges and disproportionate compliance requirements that were imposed due to the stigma attached to the securitization market post-2008. These disproportionate requirements continue to hinder the market's growth, preventing it from unlocking its full potential in helping to finance Europe's investment priorities, including the green and digital transitions.

Prudential constraints—translating into capital requirements for banks and insurers—remain the biggest obstacle to market development, and need to be more proportionate and better aligned with the true underlying risk of the securitized assets. For instance, an AA-rated non-STS securitization currently faces a capital charge 11 times higher than a senior STS product with the same rating under Solvency II. These undue requirements put European institutions at a competitive disadvantage and have to be adjusted to enhance investor participation and liquidity.

Regarding banks, the p-factor, which drives the level of overcapitalization on securitized assets, relative to their underlying portfolio, remains inadequately high in Europe, thus penalizing originators: in this respect, it is suggested halving the p-factor in the standard model and lowering the minimum of 0.1 for internal models. The current framework also imposes risk-weight floors on senior tranches that are inconsistent with empirical default rates: they need to be recalibrated to make them more sensitive to the true underlying risk drivers. This should come with a revision of the eligibility of securitized assets in liquidity buffers, given that the current framework underestimates the liquidity of both STS and non-STS securitizations. A pragmatic recalibration, coupled with more sensible haircut levels and a more granular treatment of non-AAA tranches, would foster greater market activity.

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**Revitalizing securitization is not just a technical fix—it is a strategic necessity for the EU.**

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Excessive reporting obligations are also significant hinderances to market participation. Up to 50% of the fields required under ESMA's disclosure templates provide no material benefit to investors or supervisors. The EU must streamline these requirements by adopting a principles-based approach, ensuring that reporting obligations focus on material risks rather than unnecessary details.

Those regulatory and prudential adjustments should be conducted while protecting the strong post-2008 safeguards—the ban on re-securitization, the mandatory risk retention, and the supervision of credit rating agencies by ESMA— which must remain intact to ensure market integrity.

However, these safeguards justify scrapping the regulatory penalizations that came in the immediate aftermath of the great financial crisis, as Japan has already done. The EU must recognize that it can support securitization growth while maintaining financial stability.

Aside from this regulatory groundwork, another fundamental step towards revitalising European securitization is the creation of a European securitization platform. Inspired by the functioning of other examples, in the US, Japan and Canada, and inside the EU Italy or Germany, such a platform could play a role in standardising issuance processes, enhancing transparency, and significantly reducing costs for issuers and investors. The platform could also be instrumental in scaling up SME loan securitization, which faces difficulties given their lack of standardization and the restrictive eligibility criteria in STS. Moreover, this platform could help enhancing green securitization, which remains a niche market in Europe despite its potential.

Crucially, this platform could benefit from a public guarantee on senior low-risk tranches, which would increase investor confidence and help mobilizing private capital.

Revitalizing securitization is not just a technical fix—it is a strategic necessity for the EU. Without urgent reform, European businesses will continue to face financing constraints while global competitors leverage well-functioning capital markets. The assertive market response to the Commission's consultation last December leads the way to an ambitious legislative proposal this semester, notably including recalibrations in capital requirements for both banks and insurers. The time for action is now.



## PETRA HIELKEMA

Chairperson – European  
Insurance and Occupational  
Pensions Authority (EIOPA)

### Securitisation – Those who forget the past are doomed to repeat it

Initiatives to further develop capital markets in the EU are high on the agenda. A single market for capital would increase investments and savings across borders, benefiting consumers, companies, and investors irrespective of their location. Integrated capital markets across EU Member States would unlock capital by diversifying funding sources beyond traditional banking.

As part of this initiatives, renewed interest has emerged in securitisation as a means to stimulate capital flows, enhance private risk-sharing across the financial system, and release funding for the real economy. In October, the European Commission initiated a review of the regulatory framework for securitisations to revive the securitisation market. Insurers are often seen as key actors who could increase their investment in this asset class.

While some argue that lower capital charges might incentivise insurers – one of Europe's largest institutional investors – to invest more in securitisation products, EIOPA believes this is not the full story. And this is also the position of the Joint Committee of the European

Supervisory Authorities, which analysed capital requirements and their impact on insurers' investment behaviour. The findings show that the current capital requirements align with the risks of securitisation investment and capital requirements are indeed not the primary obstacle holding back investments.

A key issue is that securitisation products often do not align well with insurers' long-term liabilities. Life insurers, for instance, require assets that provide predictable long-term cash flows. However, securitised products are often structured in ways that make them less suitable, creating a mismatch that complicates asset-liability management.

Furthermore, insurers often perceive securitisation as less attractive compared to other asset classes due to its risk-return profile. Its complexity further serves as deterrent. Unlike simpler fixed-income products, securitisation requires specialised expertise, increasing management costs and perceived risks – especially for insurers lacking in-house expertise.

Finally, any change to the regulatory framework to reduce the capital charge for investment in securitisation would affect only some insurers, namely those using the standard formula to calculate their capital requirements. Since large insurers – who are the most significant players in the market – use internal models, changes to the standard formula are unlikely to have an impact on their investment behaviour.

The debate is shifting from capital requirements to the requirements of the Securitisation Regulation. Here, it is essential that we keep the lessons of the Great Financial Crisis (GFC) in mind and maintain strict standards on transparency, due diligence and risk retention, though adjustments to make them more proportionate could be explored.

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**The review of the  
securitisation framework  
should also adopt a  
prudential perspective.**

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EIOPA has reservations about unfunded credit protection by insurers for synthetic securitisation, i.e. where banks obtain unfunded guarantees from insurers, while keeping the credit portfolios on their balance sheet. Compared to funded protection, unfunded protection increases the counterparty default risk, may increase the systemic risk and

could be detrimental to policyholder protection. Monoline insurers extended their business to unfunded guarantees for securitisation in the years before the GFC. When the value of the securitisation deteriorated, monoline insurers incurred heavy losses. This eventually resulted in the failure of most monoline insurers, which significantly aggravated the crisis.

Another lesson from the GFC is that the misalignment of interests between the originator and the investor in securitisations needs to be avoided because it may result in poor risk management of the credit portfolios. Therefore, originators should retain a portion of the risk that ensures an appropriate alignment of interest between originator and investor. Investors should be able to assess whether the 5% risk retention ensures a proper alignment of interests and where that is not the case, agree on higher risk retention that would ensure that alignment of interests.

Finally, it is important to understand that a full comparison with the US securitisation market is not possible. While the US market is large, it is important to recognise that approximately 80% of the securitisations are bought by state-funded platforms like Freddie Mac and Fannie Mae. Moreover, the aim of this securitisation market is to stimulate home ownership, not a capital markets union via the banking channel.



## KILVAR KESSLER

Chairman of the Management Board – Estonian Financial Supervision Authority (Finantsinspektsioon)

### Risk sensitive duties lower the cost of securitisation

Securitisation enables owner of certain assets to refinance these assets by converting them into securities and selling the latter. It is a good tool for diversifying funding, freeing up lenders to allocate new loans to the economy. Securitisation leads to a wider distribution of risk across the economy.

The first securitisations were made in the US in the 1970s, and Europeans followed in the late 80s. Securitisation came onto the radar in Estonia, with its newly established market economy and private financial system, at the beginning of this century. Fast forwarding to the current day in the European Union shows we have pretty comprehensive, detailed and harmonised regulation of securitisation, a securitisation market that lags its peers, and a goal of gearing up capital markets to boost European economic activity.

The EU Securitisation Regulation (SECR) of 2019 was designed to promote a transparent, efficient, and resilient securitisation market. Some other EU legal acts stipulated prudential requirements for securitisation, and together these legal provisions reflected not only the overall risk appetite and risk allocation of that time, but also the experience of the financial crisis and

the wish that such a crisis should never happen again. This created some undue constraints on securitisations.

A party planning to optimise their asset-liability structure might also consider securitisation of their assets. They could analyse whether doing so would lead to higher returns, increased liquidity or any other desired outcome. The prudential treatment of the assets before and after the event would play a crucial role and any potential investor would carry out a similar analysis. The Baltic credit portfolio leans on real estate lending and some banks use internal models, but the current prudential requirements somewhat disincentivise securitisation, at least for certain types of asset classes, originators, and investors.

One-off and recurring transaction costs are also relevant. The smaller the asset pool and the expected returns, the more of a burden the transaction costs are. As the Baltic banks and other possible parties to securitisation are on the smaller side, I would like to discuss some transaction issues, specifically due diligence and transparency, in more detail.

The SECR sets forth quite detailed and rigid requirements for due diligence and internal risk management. The reasoning for regulation stated that it was merely codifying the existing due diligence rules from a number of other EU legal acts.

#### Risk sensitive diligence and disclosure rules maintain confidence in securitisation and lower the cost.

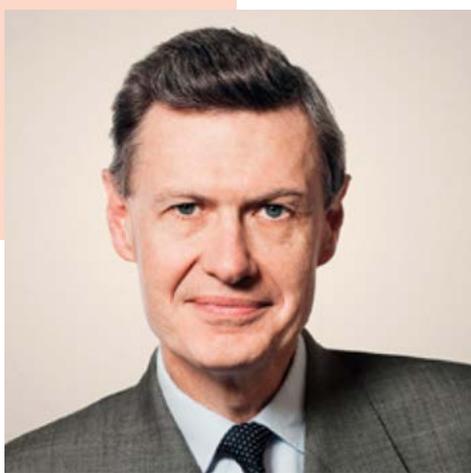
In principle, more information leads to “more correct” pricing. Correct internal risk management would support the activities of a financial intermediary. This applies across the securities markets and the whole financial sector, not only in securitisation. A majority of other financial instruments, including ones that are complex and risky by nature, are not subject to granular due diligence rules under public law. Professional financial intermediaries would determine the scope and depth of the due diligence they should be doing to assess risk so that it is proportionate to the level and nature of the risk, including when they participate in the secondary market. By the same token, those intermediaries should have more leeway in organising their internal

risk management. A number of issues that led to the financial crisis, such as supervision of rating agencies, are largely addressed by the rules.

The SECR sets transparency requirements for potential investors. This allows the investors to understand, assess and compare securitisation transactions so they do not have to rely solely on third parties like credit rating agencies.

The transparency requirements in regulation should continue to make a difference between private and public securitisation. Public securitisation is when the EU securities and crypto-asset regulations require a prospectus or white paper to be registered with the authorities. The disclosure rules would apply with any necessary tweaks to reflect the peculiarities of securitisation. All other securitisation would be considered private and would be subject to a broad disclosure requirement and prohibition of misleading practices, as opposed to technical requirements. Professional financial intermediaries would make sure that they agree to provide and receive the information needed to fulfill the duty of care required of them. The authorities would have the right to access any information needed for their supervisory or other similar activities.

Due diligence and transparency requirements consequently need to be rephrased as more general and principle-based fiduciary duties, as this would lower transaction costs and make securitisation a more realistic option while maintaining investor confidence, and keep any breach of duties actionable.



## PHILIPPE BORDENAVE

Senior Executive Advisor  
to General Management  
and the Chair of the  
Board – BNP Paribas

### Securitisation is necessary to the financing of the rebound of the EU economy

Relaunching the EU securitisation market is a major and urgent priority. For many years now, we have been calling for an ambitious review of the Securitisation regulatory framework. It is time at last for European policymakers to reconsider their perception of securitisation in a pragmatic and unbiased way and look towards the future instead of remaining in the past.

Europe is facing a historical transformation of its economy on defence, digital and sustainability grounds. To respond to the huge financing needs required by these challenges, reforms of the EU securitisation framework are inevitable. Otherwise, given the ever-increasing capital constraints imposed on EU banks, the EU economy will become always more dependent on foreign banks and NBFIs, which is not desirable.

As recently reported by the financial press, US data center securitizations have totalled \$24.3 bn since 2018, while the EU has yet to see its first such transaction; while US solar panel

securitisations have raised \$27 bn since 2018, the EU saw its first transaction in 2024 for €230 million. Securitisation will not be the silver bullet but will be a powerful tool to play a part in filling the additional €800 bn financing needs, if the incoming reform is bold enough to unlock current barriers for both issuers and investors.

The amount of EU placed issuance decreased from EUR 450 bn per year before the Great Financial Crisis to around €150 billion; as pointed out by Christian Noyer, a sheer return to past levels represent a potential of €300 bn per year in additional private financing. A candid review of historical loss rates for EU originated securitisations, which have always been extremely low even in the wake of the GFC, shows that this would not be at the expense of financial stability.

The unfolding of regulatory changes, including prudential adjustments, would be progressive and give time to monitor market and financial stability evolution. Indeed, EU financial supervisors have the means to exercise a thorough scrutiny on these transactions. Encouraging highly supervised risk-sharing between professional market participants should also contribute to support EU financial stability and resilience.

#### Half-hearted measures won't do the job.

Securitisation is often criticised as being essentially a way for banks to boost their own profitability. This is a misconception! EU corporates and households today heavily rely on bank financing. Even with stronger capital markets, the role of banks in the provision of financing will remain central. Securitisation enables banks to leverage their origination capacity by freeing up space in their balance sheets along the way, thus regenerating available capital necessary to make new loans. This is a key feature of Securitisation, that fundamentally differentiates it from Covered Bonds which are just another funding option and do not enhance the lending capacity of banks.

The priority is to address the current prudential treatment of securitisation for banks that make many potential transactions uneconomical. A limited number of risk recalibration measures regarding capital non-neutrality factors, such as decreasing the p-factor values and introducing risk-sensitive risk

weight floors, must be adopted. This does not mean forgoing the robust safeguards that prevent unsound risk taking (e.g. ban on re-securitisation, retention obligation, transparency and due diligence requirements, sound credit granting criteria). In addition, to allow banks to better contribute to the liquidity and dynamism of the market, it is important that the treatment of securitised assets in the LCR is upgraded.

Here, we wish to stress two important aspects in the current debate:

Focusing improvements on STS securitisations alone would not have a sufficient impact on the market and would set aside entire asset pools (new originators, trade receivables, green energy projects...). Besides, non-prudentially regulated investors do not differentiate fundamentally between STS and non-STS and can be indifferently attracted by both.

Similarly, subjecting the benefit of improvements to subsets of criteria or preconditions would inevitably restrict their effectiveness, failing to reach a critical mass to create the desirable dynamic. More complexity in the framework would be counterproductive and the "simplification" approach should prevail.

EU insurers also need to be convinced to start reinvesting in securitisation. The current regime has ultimately caused them to forsake their interest and expertise in this asset class; the EU life sector currently holds only 0.33% of investment assets in securitisations vs. 17% for U.S. life insurers, despite similar industry sizes. Solvency II should be amended as it sets punitive capital charges on securitisation, even on those assets with investment-grade ratings.

The benefit of securitisation to the Savings and Investments Union and the EU's strategic priorities is unquestionable. That is why the action must be decisive: half-hearted measures won't do the job.



## ANNABEL SCHAAFSMA

Director Global Structured  
Finance – Moody's Ratings

### Relaunching Europe's securitisation market

Policymakers' proposals to revitalize the European securitisation market have taken on fresh momentum reflecting the EU's growing ambitions to enhance defense capacity, decarbonize and digitalise the economy.

The Draghi report estimates a minimum annual increase of public and private investment of 4.4%-4.7% of EU GDP is required to meet these needs.

An enhanced securitisation market - which also stands at the heart of some of the deep currents reshaping global markets, including the rise of private credit - could be key to financing the lion's share of this investment.

In the US we see more direct lenders tapping into the structured finance market to securitise a small but growing share of transactions, leaning increasingly on asset-based finance to address growing capital demands.

Such transactions currently account for some 10-15% of financing needs for a large variety of assets, including fibre-optic networks, data centres and intellectual property royalties.

However, European securitization volumes remain a fraction of the total US market, despite reaching a 10-year

high at the end of 2024, with further growth predicted in 2025.

The European Commission is currently considering reforms to the EU's securitisation framework, aimed at unlocking growth by supporting European businesses and helping lenders diversify their funding sources and enhance asset-liability management.

While we expect the proposed reforms will improve market liquidity and broaden the pool of investors, we find maintaining gains in the quality and consistency of data will also be an important factor in sustaining growth.

#### Data quality is key

The strong performance of the European securitization markets in the last decade has been bolstered by long-term trends, including the evolution of macroprudential rules, tighter underwriting practices, and - most importantly - improvements in data standardization. The quality and quantity of loan-level data that has become available is allowing more accurate insights into the assets underpinning these securitisations.

Since 2008, there has also been a shift toward a more rigorous validation and verification of transaction parties' data. This includes the information disclosed by loan originators and by sponsors when executing transactions, which allows the market to better evaluate the originator's underwriting standards and the effectiveness of the representations and warranties included in the documentation.

**To succeed, Europe's  
securitisation market  
must adapt to market  
demands and advance  
transparency.**

Additionally, greater use of third-party reviews has provided more clarity on the integrity of transaction-related loan-level data. For example, the 2017 simple, transparent and standardized securitisation regime required the use of an independent party to check the quality of provisional portfolio data and their compliance with eligibility criteria.

Across the markets, transaction structures have been modified to include mitigants to minimize financial disruptions. These developments include the use of backup servicers, backup facilita-

tors, and estimation language provisions that ensure notes are paid even during a servicing transfer.

Overall, we see European securitisation transactions are now notably better able to withstand economic turmoil as demonstrated by the stability of our ratings even under more unfavorable circumstances such as the pandemic or recent interest rate hikes.

#### What's next?

We continue to regularly review our methodologies to ensure that they reflect market dynamics, new products, and current underwriting practices. This year, for example, Moody's published a specific methodology to rate data centre asset-backed securitisations as we expect global data centre capacity to double by 2030, requiring substantial capital investment and access to multiple debt capital markets.

If Europe's securitization market is to fulfil its potential, industry and regulators will need to remain agile enough to adapt to evolving market demands while advancing transparency and standards to mitigate risk.



## JOHN GOLDEN

Global Head of Insurance  
Regulation – Apollo  
Global Management

### A compelling symbiosis: Unlocking securitisation investment for European insurers

Investment-grade securitisation is critical to the investment strategies of Apollo and Athene, offering incremental return without incremental credit risk and acting as an important source of diversification vs. traditional public market assets.

Insurers like Athene capture safe, incremental yield by providing customized, long-term financing via securitisation structures. Because insurers' liabilities are long-dated and predictable, they can provide long-dated financing without exposure to "runs" that entities with daily liquidity obligations face. Capturing incremental yield without taking on additional credit risk through private and structured assets has allowed US insurers to provide annuity customers with an incremental 74 basis points of excess yield vs. comparable savings products over the last five years. We estimate that this has created \$46 billion+ in incremental value for US policyholders over the same period, providing critical funds to help to close the US "retirement gap." Investment in these assets also finances critical long-

term investment initiatives in the US. Importantly, securitised products are not inherently riskier than traditional public bonds. Years of data (pre- and post-Global Financial Crisis) show that investment-grade securitised products experience lower impairment rates than comparably rated corporate bonds.

Securitised products also reduce risk by diversifying Athene's portfolio across the full breadth of the US real economy. This same diversification is not possible to achieve solely through investment in traditional public bonds and equities: ~87% of US companies with \$100 million+ revenue are private; ~30% of the value of the S&P 500 is provided by just seven companies. Athene's ABS portfolio is 93%+ investment grade and spans the full spectrum of collateral types, including solar, fiberoptic, datacenters, equipment leasing, music royalties, utilities, shipping containers, communications, oil pipelines, and many more.

The US benefits from vibrant securitisation markets that effectively pair the diverse needs of borrowers with long-dated capital from an array of lenders, including insurers. Insurer investment in securitisations, facilitated by the US Risk-Based Capital solvency regime, offers a compelling economic symbiosis – policyholders benefit from the yield and diversification offered by securitisations, and long-dated, match-funded capital is made available to finance the needs of the real economy.

In Europe, by contrast, Solvency II Standard Formula capital charges for securitisations constrain Europe's ability to reap these same benefits. Holdings data tells the tale: European life insurers currently hold only 0.33% of investment assets in securitised products, compared with ~17% for US life insurers.

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**Securitisation offers a bridge to stable, long-dated financing, yet restrictive regulations are inhibiting insurer credit provision.**

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The impact of Solvency II's calibration is perhaps best demonstrated by a comparison of capital requirements for similar assets held in different forms. Consider a hypothetical portfolio of residential mortgages. Under Solvency II, this portfolio would carry a ~3% charge. If these same mortgages were held in a residential mortgage-backed

security (RMBS), however, even the *highest-rated tranches* of those mortgages could carry a 5% capital charge. Notably, this 5% charge applies only to STS securitisations. If the securitisations are not STS-eligible, the capital increases to 62.5%, making them prohibitively expensive for an insurer to hold.

A comparison of asset returns and Solvency II capital requirements for fixed income assets indicates that investment-grade securitisations are heavily penalized on a relative basis vs. other asset classes (e.g., corporate bonds). Such a result implies that Solvency II's calibration is inconsistent across fixed income assets.

Solvency II thus effectively blocks insurers from investing in securitised products, which in turn hinders both insurer diversification and capital formation in the broader European economy. Internal models, which can partially mitigate substantial capital charges on securitised products, are only available to a small group of large European insurers given the substantial implementation cost. Because insurers are such large senior lenders, their retreat from securitised products has knock-on effects for financial markets: less demand for securitisation means banks and other originators have fewer avenues to transfer risk and raise new funding for loans. In practical terms, this means fewer securitisation issues come to market, and those that do price less efficiently, ultimately constraining the flow of credit.

Traditional public markets no longer suffice to finance today's real economy. Securitisation offers a bridge to stable, long-dated financing, yet restrictive regulations are inhibiting insurer credit provision. A recalibration of Solvency II to ensure fair, risk-aligned treatment across asset classes could help unleash €1 trillion+ in incremental financing in Europe.



## EDWIN WILCHES

Managing Director, Co-Head  
of Securitized Products –  
PGIM Fixed Income

### Reviving European securitisation – Time for take-off

The Savings and Investments Union (SIU) is much like a pilot's cockpit. There are many buttons, dials and knobs that need to be calibrated carefully for the plane to take off or, in the SIUs' case, to develop deeper, more liquid capital markets to finance the European economy. Securitisation is one instrument - if calibrated correctly - could unlock huge opportunity and help EU capital markets accelerate.

At PGIM we welcome policymakers' focus on the securitisation markets. We manage over €130B of securitised assets for European and non-European clients. This along with our role as a top 10 issuer of Collateralised Loan Obligations (CLOs) in Europe and the US gives us a unique insight into the impact of regulations across markets.

Europe's securitisation market has shrunk to 17% of the size of the U.S. market (from 85% pre-GFC). This is unfortunate given that securitisation – also known as asset-based finance (ABF) – could be playing a much bigger role in meeting the funding needs of critical sectors like housing, corporates, SMEs and renewables. ABF provides important opportunities for pension funds, insurance companies and even retail investors to diversify

investment risk while earning stable, advantageous returns.

Inertia in European ABS is largely driven by an over-regulated market. Regulation was crafted with good intentions but has resulted in unintended consequences. Europe's rules do not differ greatly from those of other jurisdictions, but the EU has applied regulation – in the form of the EU Securitisation Regulation (EUSR) – with a heavier, more prescriptive footprint. This is good news. It means solutions are feasible, assuming we have the political will. It presents an opportunity for policymakers to bring market-enabling reform as outlined in Mario Draghi's report, 'The Future of European Competitiveness'; a win for the SIU.

How do we fix the EUSR regime? Like the SIU, this regime has its very own dashboard full of instruments that must be tuned to the right frequencies:

**Simplify Due Diligence Requirements** – The EUSR's heavy and prescriptive due diligence obligations add unnecessary operational burden for investors, particularly smaller institutions. Isolating securitisation as a "special" asset class with its own extra layer of due diligence requirements makes Europe unique among peers but not in a good way. Policymakers should consider introducing a principles-based investor due diligence framework which would allow the end-investor to judge whether a given securitisation meets their needs. Or better yet, as in most other jurisdictions, remove investor due diligence entirely, taking comfort that securitisation issuers are well-regulated and that today's stringent underwriting is robust.

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**Simplify Reporting Standards** – Granular EUSR reporting requirements create excessive issuance hurdles without adding meaningful value for investors. As an example, issuer compliance costs can surpass €10,000–€31,000 per deal annually for CLOs. Reducing the hundreds of data fields which market participants must report will incentivise more issuance and investment while greatly reducing costs and frictions.

**Recalibrate Insurance Capital Requirements** – Current Solvency II

capital charges for securitised products are disproportionately high compared to their risk profiles. This deters insurance investment. Insurance capital requirements in Europe are higher, sometimes astronomically higher, than in jurisdictions with more developed markets; this severely dampens demand. Capital requirements should be risk-sensitive and based on evidence.

**Facilitate greater UCITS Investment** – The 10% issuer limit under the UCITS framework restricts European asset managers from investing in securitisations. Furthermore, EU regulators treat securitisation investments with extreme caution in the context of UCITS supervision, only allowing limited investment in some securitisations. Supervisors should take comfort in the nearly two decades of sound performance of securitisation, especially in the most senior, investment grade tranches (i.e. AAA and AA rated).

**Expand EU Investors' Access to Global Markets** – The EUSR restricts investors to securitised assets that adhere to EU standards, leaving them locked out of 75% of the global securitisation market. This puts European investors and financial products at a significant disadvantage to investors and products in other global financial centres.

Individually, these changes may have limited impact on the growth of the EU securitisation market, but together, they have the potential to be transformative. If we approach this work with equal amounts of thought and political ambition, these changes will deliver big outcomes for borrowers and investors. Now is the time for bold reforms to unlock Europe's securitisation potential and ensure its place at the forefront of global capital markets. SIU, it's time for take-off.



## CECILE NAGEL

Global Head of Corporate Trust - BNY

### Catalysing Europe's Future: Securitisation in the Savings and Investments Union

Europe's aspirations for leadership in areas such as artificial intelligence, quantum computing, and clean energy require massive investments. The Draghi report<sup>1</sup> on EU competitiveness identified the need for an additional €750 to 800 billion annually, over 4.5% of EU GDP in 2023.

However, many European nations have limited fiscal headroom for public investment. Capacity in Europe is further reduced without capital markets to supplement and backstop bank lending. Finally, the higher debt-to-equity ratio of European companies compared to their US counterparts creates additional funding limitations.

A strategic shift towards capital market financing is therefore essential. A thriving securitisation market would help accelerate Europe's ambitions.

#### From Gap to Catalyst: The Role of Securitisation

Banks have historically dominated European finance, accounting for 70% of business debt in the EU according to the April 2024 report on EU capital markets by Christian Noyer<sup>2</sup>. By contrast, U.S. capital market expansion continues to

reduce the dependency on banks and their balance sheets to fund business debt. This reliance imposes limitations on the large-scale investments needed for technological innovation and the green transition.

In Europe bank lending capacities are squeezed by increased capital requirements and stricter balance sheet rules. Moreover, EU banks cannot rely on securitisation to the same extent as their U.S. counterparts, in part due to higher prudential penalties, capital charges and regulatory costs.

Securitisation offers a solution by packaging loan portfolios into marketable securities, accomplishing four objectives:

- Transferring risk away from banks to investors
- Freeing up balance sheet resources to meet Basel III capital requirements
- Mobilising private capital more productively whilst providing more diverse investment opportunities for investors in the EU
- Creating a more resilient financial ecosystem by reducing risk concentration

#### The Legislative and Regulatory Framework for Securitisation

While the benefits of securitisation are clear, Europe's ability to leverage it remains constrained by regulatory and legal fragmentation across the EU. Unlocking securitisation's full potential as a catalyst for European competitiveness requires targeted policy reforms.

The time is ripe as the project to build a Savings and Investments Union (SIU) is launched.

The SIU aims to address structural fragmentation and underdevelopment in capital markets while mobilising European savings for long-term investments. Two landmark 2024 reports, the Noyer report, and the Single Market report by Enrico Letta<sup>3</sup>, have provided its foundational blueprints.

Within the contours of a future SIU, EU legislators and regulators should prioritise three policy considerations to unlock the potential of securitisation as a catalyst for development:

1. **Normalisation of the regulatory framework for securitisation so that there is greater alignment with the framework for other financial instruments.** The

current regulatory framework for securitisation is complex. The requirements for both issuers and investors differ greatly from those for other financial instruments, without full justification. These differences create a barrier to entry to the securitisation market. Normalisation and simplification will encourage new entrants to the market by lowering market obstacles and enhancing attractiveness.

2. **Creating a pan-European insolvency framework that will function as a "28th Regime."** Major differences in national insolvency laws handicap the development of pan-European securitisation issuances and of pan-European securitisation markets. Development of an "opt-in" pan-European approach for insolvencies will create possibilities for pan-European securitisation issuances by increasing certainty for investors.
3. **Supporting standardisation of issuance practices and processes across Europe, including potentially through a pan-European platform.** A lack of standardisation in issuance practices and processes increases costs and risks and handicaps the development of European securitisation markets. The creation of a pan-European issuance platform, ideally with the support of entities from the European public and private sectors, would help deliver standardisation and scale to the European securitisation market.

By addressing these policy needs, the EU can create a more favourable environment for securitisation, attracting private capital and driving economic growth. Bold and decisive action is essential. A revitalised securitisation market will not only finance Europe's next industrial wave but also position the EU as a more competitive financial centre amid shifting global capital flows.

1. [https://commission.europa.eu/topics/eu-competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en)
2. <https://www.tresor.economie.gouv.fr/Articles/2024/04/25/developing-european-capital-markets-to-finance-the-future>
3. <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>



## ALEXANDER BATCHVAROV

Managing Director and Head of  
International Structured Finance  
Research – Bank of America

### Restore the EU securitisation market to help transition the EU economy

Securitisation is a versatile funding and capital management technique for banks. A bank relies on its assets to raise the financing; the bank can transfer the risk of an asset pool by selling it (true-sale securitisation) or by buying protection against that pool (synthetic securitisation). By executing a full-capital-structure true-sale securitisation, the bank both raises financing against the securitised assets and transfers the risks of the asset pool to those who provide the financing (i.e. the investors in the different tranches of the cash securitisation) or to the protection providers for the second-loss or the second-and-first loss risk in a synthetic securitisation.

Hence, securitisation is a bridge between the banks and the capital markets, between bank-originated assets and investors seeking specific risk profiles of such assets (securitisation tranches). For banks, securitisation offers multiple funding opportunities and widens their investor base both domestically and globally, and expands banks' risk management capabilities:

long-term capital raising and tactical output floor management. For investors, securitisation offers investment opportunities of varying risk profile in terms of credit and maturity risk, and to sectors which investors cannot access themselves directly, including consumer and home loans, SME loans, equipment leases, solar, and data centers.

Securitisation brings funding to banks and creates safe domestic investment opportunities for EU savers and relevant-risk investment opportunities for EU qualified investors. Given bank financing domination and large volume of fragmented savings in the EU, it is difficult to foresee a technique other than securitisation to promote fast advancement of the Savings and Investments Union (SIU) of the EU.

Obviously, a well-functioning market for investments and risk requires active participation of both issuers and investors. The EU securitisation regulation (EUSR) creates barriers to entry for both, expressed in a very high, and higher than for other market instruments, cost of doing business. EUSR imposes the most stringent disclosure and due diligence requirements to securitisations regardless of their investment risk profile and investor skills when compared with best market practices in the world. EUSR prescribes more due diligence for an investment in a AAA-rated prime one-year auto ABS note than for an investment in a ten-year distressed loan portfolio. The high regulatory capital requirements, especially under Solvency II, effectively eliminate most European insurers from the EU securitisation market, in contrast with their role in other parts of the world. The complexity of STS prevents smaller EU banks from benefitting from its 2019 introduction.

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**Securitisation is a key  
tool to rapidly advance  
the SIU in the EU.**

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According to the European Commission's 'Factual summary of the targeted consultation on the functioning of the EU securitisation framework', a majority of respondents (>50%) believe that the EUSR has not reduced or eliminated unduly high operational costs for securitisation issuers and investors, has not reduced operational costs even for standardised securitisation products (STS), has not tackled regulatory inconsistencies or removed regulatory disadvantages for STS products, and has not improved the financing of the EU economy.

That summary paper noted that the SME sector has only limited access to securitisation due to regulatory complexity, high cost and lack of data quality. EU banks rarely execute SME cash securitisations, but are active in synthetic securitisation. This suggests that data quality is not necessarily a problem for SME securitisation; the problems lie in the regulatory complexity, high cost of securitisation issuance, limitations to the use of STS for SME portfolios and by smaller banks. Similar barriers exist for green securitisation, along with the limited origination of green assets.

Securitisation can certainly support SME funding in the EU, as it did pre-GFC. It can support climate-related transition both in the financing of new green assets and in transitioning banks' balance sheets to green assets. Securitisation can certainly help with the funding of aspects of the digital transition in Europe. All that along with boosting overall funding for the EU economy to the tune of several hundred billion euros per annum, at least. However, it is unrealistic to expect securitisation to contribute to the realisation of EU economic growth and policy priorities if the operational efficiency of the EU securitisation market, level playing field across capital market instruments, risk proportionality in due diligence and disclosure, and adequate risk calibration are not restored soon.

In the absence of a silver bullet, the markets are waiting for a comprehensive legislative proposal to bring risk-sensitivity, comparability and proportionality to EU securitisation framework for due diligence and disclosure requirements, capital and liquidity calibration.

## Expand STS credit protection to the non-life insurance sector<sup>1</sup>

**Ian Bell** - Prime

Collateralised Securities

**Michael Bennett** - Arch

Insurance (EU) dac

**Georges Duponcheele** -

Munich RE

**Tamar Joulia-Paris** -

International Association of

Credit Portfolio Managers

**Véronique Ormezzano** -

VYGE Consulting

### Triple benefits of using insurance SRT

Significant Risk Transfer (SRT) securitisation, executed principally in a synthetic format, enables banks to free-up capital on their balance sheet by transferring risk to non-bank financial entities, and enabling a key economic optimisation tool: capital velocity.<sup>2</sup> Including insurance as an eligible form of risk transfer in simple, transparent, and standardised (STS) SRT securitisations will enable banks to access the reinsurance market and **increase lending capacity to the real economy**, supporting key European initiatives, such as housing, SMEs, green technology, digitalisation and defence.

The role of (re)insurance companies as investors in traditional securitisations, on the 'asset side' of their balance sheet, is well known. Less well understood is the large capacity of many non-life (re) insurers on the 'liability side' of their balance sheet: underwriting credit risk with insurance policies is a natural extension to their expertise in their core insurance business. It **reduces systemic risk for both banks and (re)insurers**. Banks diversify the counterparties able to share credit risk with well-capitalised and highly regulated entities. (Re)insurers diversify their risks, as bank-originated credit risks have low correlation with traditional insurance risks such as natural catastrophe, property, casualty, and life risks.

Moreover, **insurance-based credit risk transfer enhances market resilience**. (Re)insurers can expand capacity where current collateralised SRT participants are limited, especially for long-term

risks like residential mortgages and EU non-Euro assets. This capacity remains stable during financial market volatility, offering banks reliable partnerships throughout credit cycles.

### The business model of insurance differs from that of investors in collateralised instruments

The insurance business model is predicated on accumulating a diversified portfolio of uncorrelated risks and proactively managing portfolio concentration by syndicating the risk to other reinsurers and investors (e.g. 'cat bonds'). It does not contemplate the collateralisation of insurance policies. In securitisation regulatory terminology, they are "unfunded".

Investors in collateralised (i.e. "funded") risk transfer consist mostly of financial investors such as funds, whose business model differs from the ones of (re) insurers. Both serve complementary roles and provide important capacity to the economy.

### US insurance CRT track-record with Housing

In the US, after the Great Financial Crisis (GFC) the Federal Housing Finance Agency (FHFA), responsible for overseeing Fannie Mae and Freddie Mac (the "GSEs"), developed a world-leading program of Credit Risk Transfer (CRT) to protect taxpayers. Since their inception in 2013, these CRT programs include both insurance programs and 'funded' ones for capital markets investors. This complementarity is a key strength of the programs, as shown during COVID, when the participation of regulated (re)insurers broadly increased as the willingness of funded investors to participate decreased. As a result, the GSEs increased their use of insurance from 25% to roughly 40% of their CRT trades.

The robustness of a market increases with the number of participants. Over the last decade, for the GSEs' CRT programs, the number of (re)insurers has steadily increased and reached more than 60 (compared to slightly more than a dozen in the European SRT market). By end 2023, those 60+ (re)insurers protected about \$60 bn of CRT risk referencing \$1.5 trillion of US residential mortgages owned by the GSEs.

### The EU securitisation reform is an opportunity that should not be missed

In the EU, the extension of the STS label to synthetic securitisation in 2021 boosted the issuance of SRT transactions, thus helping European banks to increase their capital velocity.

This boost arose primarily because the retained risk weight applied in the Capital Requirements Regulation (CRR) to the risk retained by banks (the senior tranche) was reduced from 15% to 10%, making more transactions economically viable. By the end of 2023, about €300 bn of loans originated by EU banks were protected by close to 8% (€24 bn) of SRT transactions. The share of STS compliant transactions increased year after year.

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**Opening the STS market to non-life insurers will support EU competitiveness and financial stability.**

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However, one criterion added in 2021 to the synthetic STS label was that the protection should either be funded or provided by counterparties which don't attract any capital requirements in the CRR (sovereign entities and multilateral development banks). As a result, banks cannot benefit from the STS label when transacting with (re)insurers, although they may also value the financial strength, the business relationship, expertise and long-term view of (re) insurers as protection providers.

(Re)insurers started providing SRT protection to European banks in 2018 when funded and unfunded securitisations were on a regulatory par. By end 2024, the outstanding insured tranches amounted to €6 bn, on a variety of asset classes. But because of the 2021 market fragmentation, they are now focussed on the smaller market of non-STS SRT securitisations, which are also less capital efficient for banks.

### A strong support in the responses to the EU consultation to allow insurance STS

The Commission included in its October 2024 securitisation consultation several questions on whether unfunded credit protection should be eligible for the STS label (Question 7.4), what safeguards should be put in place with regards to counterparty rating and multiline business model (Question 7.5), and whether there will be an impact on EU financial stability (Question 7.6). Question 7.4 was a simple vote with three possibilities: "Yes", "No", or "No opinion". Out of the 73 responses filed on this question, 48 (66%) voted "Yes", 19 (26%) "No opinion", and 6 (8%) "No".

Among industry respondents that voted “Yes” were the two European STS verification agents (PCS, TSI), the European, Austrian, Dutch, French, German, Italian, Polish and Portuguese Banking Associations or Federations, the German Insurance Association, the leading European or International business associations (Paris Europlace, IACPM, AFME, AIMA/ACC), eight EU banks, three insurance companies, and many other institutions or associations, some of which answered anonymously. Particularly important are the responses from Austria, Italy, Poland, and Portugal, countries whose banks have difficulties in reaching the STS label due to the 2021 funding requirement.

This overwhelming support from the industry suggests that the Commission should definitely include this targeted change in its securitisation package. To provide additional safeguards, the STS label may include specific eligibility criteria, such as, minimum credit rating, and supervision of the (re)insurance company at consolidated level, avoiding build-up of risk concentrations.

## Conclusion

The inclusion of insurance policies written by multiline non-life insurance companies as eligible for simple, transparent, and standardised (STS) status would enhance financial stability, improve market efficiency, and support economic growth and competitiveness in Europe through three key mechanisms: increased lending capacity, reduced systemic risk, and improved market resilience.

Achieving these benefits will require removing the collateralisation (funded) obligation in the STS framework for insurance protection, a provision which is not compatible with the business model of the non-life insurance sector. This targeted change must be included in the 2025 contemplated securitisation reform.

1. *The co-authors accept full responsibility for any errors or omissions. The views expressed are those of the authors and not necessarily those of their companies and institutions, or of those with whom the authors have had discussions, or of their companies. All authors can be contacted via LinkedIn.*
2. *Duponcheele, Georges, Marc Fayémi, Fernando Gonzalez, William Perraudin and Alessandro Tappi (2024) “Securitisation reform to boost European competitiveness”, Eurofi Policy Note, Eurofi Regulatory Update, September.*