

EUROPEAN COMMISSION CONSULTATION PAPER ON THE FUNCTIONING OF THE EU SECURITISATION FRAMEWORK

1. Introduction

UNESPA (Spanish Association of Insurers and Reinsurers) appreciates the opportunity to comment on the European Commission consultation paper on the functioning of the EU securitisation framework.

UNESPA is the representative body of 195 private insurers and reinsurers that stand for approximately 96% of the Spanish insurance market. Spanish insurers and reinsurers generate premium income of more than €62 billion, directly employ 54,000 people and invest more than €340 billion in the economy.

UNESPA, as member of Insurance Europe has taken part in all Insurance Europe discussions linked to this project and firmly supports the Insurance Europe position on this matter. However, in addition to the Insurance Europe position, UNESPA would like to highlight the following issues included in the consultation paper.

2. Particular answers

10. PRUDENTIAL TREATMENT OF SECURITISATION FOR INSURERS

10.2 *[If you answered yes to question 10.1.] - Please specify the segments of securitisations in which (re)insurers would be willing to invest more (in terms of seniority, true sale or synthetic nature, type of underlying assets, etc.) and describe the potential for increase in the share of securitisation investments in (re)insurers' balance sheet.*

(Re)insurers are generally open to investing in a broad range of securitisation segments, as long as the investment offers a suitable risk-return profile. Insurer's investment decisions are primarily driven by key factors such as **yield, credit risk, and liquidity**, rather than the specific structure of the securitisation vehicle (whether a true sale or synthetic structure). This means that the seniority of the tranche, whether senior, mezzanine, or junior, is not a limiting factor for (re)insurers, as long as the associated risks and returns align with their investment objectives.

As regulatory frameworks evolve and more flexible structures become available, there is potential for an increase in the share of securitisation investments on (re)insurers' balance sheets. The ability to structure **payment flows** through these vehicles to match specific funding needs in the markets makes securitisation an attractive tool for diversifying investment portfolios and managing risk. With the right adjustments in regulation and transparency, insurers could see securitisation as an even more viable asset class, potentially increasing their allocation to this segment.



In conclusion, (re)insurers are willing to expand their investments in securitisation across different seniority levels and asset types, particularly if they are able to structure these investments to align with their risk, return, and liquidity preferences. With favourable market conditions and regulatory frameworks, securitisation could play a larger role in insurers' portfolios, supporting further diversification and capital management strategies.

10.3 *Is there anything which in your view prevents an increase in investments in securitisation by (re)insurance undertakings?*

Yes.

There are several factors that could prevent an increase in securitisation investments by (re)insurance undertakings.

- First and foremost, **capital consumption** remains a significant barrier. Under the current Solvency II framework, **securitisation instruments are treated more harshly** than other comparable assets, despite offering similar risk-return profiles. This is particularly evident in the capital charges imposed on securitisation investments, which are disproportionately high compared to other financial instruments with similar credit risk and asset quality. **The capital requirements for securitisation should be more aligned** with those applied to other assets that have equivalent characteristics, ensuring that there is no regulatory discrimination simply because an asset is securitised. In other words, when the **risk and quality of the underlying assets are similar**, the capital requirements under Solvency II should be **equivalent** for securitisations and other investment opportunities. Currently, this is not the case, and securitisation is unfairly penalised.
- In addition, there is a potential **regulatory barrier to investing in securitisations** for users of the **Matching Adjustment (MA)**. Securitisation instruments, particularly those with a long-term focus, may be interpreted as not being compliant with the MA framework, which restricts their eligibility for more favourable capital treatment.
- Furthermore, from a **market perspective**, the European securitisation market remains relatively **small and illiquid**, with fewer participants and lower trading volumes. This lack of liquidity can make it difficult for insurers and reinsurers to **trade securitisation assets efficiently**, further reducing their appeal. A more liquid market, with a greater number of market participants, could help alleviate these concerns.
- If the **capital requirements for securitisation investments** were reduced could **increase the attractiveness** of securitisation as an asset class. However, even with such a reduction, the **underlying regulatory mismatch**, particularly the issue of eligibility for the Matching Adjustment framework, would still represent a significant barrier. The **Solvency II treatment of securitisation** needs to be more granular, taking into account the **specific characteristics of the underlying credit risk** in each securitisation deal. A more flexible and **risk-sensitive** approach to capital requirements, rather than a one-size-fits-all model, would help level the playing field and make securitisation more competitive with other asset classes.

In conclusion, addressing both the **capital treatment under Solvency II** and the **liquidity challenges** in the market would help create a more favorable environment for (re)insurers to increase their investments in securitisation.