

## Briefing Note

### Solvency II Investor Survey Results – survey undertaken in September 2017

As the EU Securitisation Regulation and amendments to the CRR are being finalised, and given the acknowledgement that the insurance regulatory framework for securitisation should be compatible with the Securitisation Regulation, attention is turning to the revision of the current Solvency II calibrations for the risk factors for investment by insurance companies in securitisation. AFME welcomes the progress being made in this respect. In order to provide the views of the insurance investor community on the current treatment under Solvency II and the basis upon which investors would be prepared to invest in securitisation going forward, AFME conducted a survey of 33 buy side firms. The largest number of the respondents comprised insurance companies (49%), with a significant number of asset managers<sup>1</sup> (39%) and a small proportion classified as 'Other' (12%). A large majority of the insurance company respondents were based in the EU27 (80%), with a smaller proportion based in the UK (20%). The asset managers were mainly operating globally (56%) and in the EU excluding the UK (39%), with a small number operating in the EU including the UK (5%).

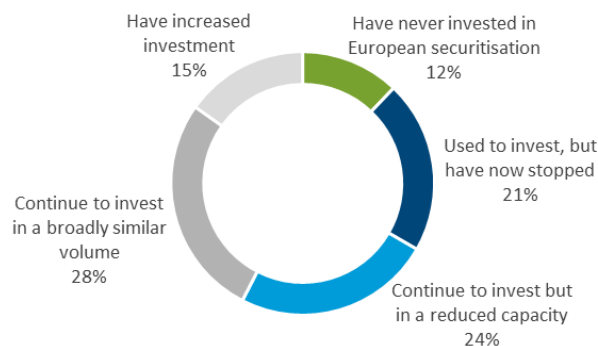
The key findings of the survey are:

- 45% of respondents have either stopped investment or reduced investment in European securitisation, whereas only 15% have increased investment.
- Of those respondents that have stopped or reduced investment, by far the largest number say that this decision was due to the high Solvency II capital charges for securitisation.
- 79% of respondents not planning to invest in STS transactions with the current charges, would invest if the charges were reduced to equivalence with corporate bonds.

## Summary of survey results

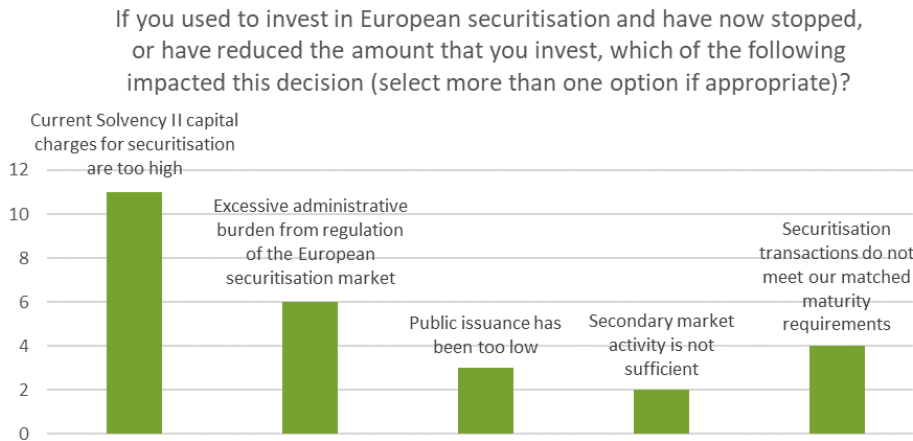
- 45% of respondents have either stopped investment or reduced investment in European securitisation, whereas only 15% have increased investment. This supports evidence from BAML (see Annex 1), that insurance companies have reduced their investment allocation to European securitisation in recent years.

Which of the following options most accurately describes your company's current investment position with regards to European securitisation?



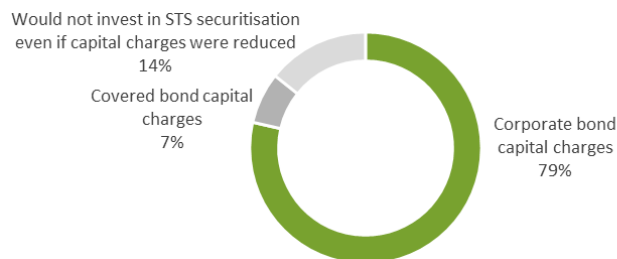
<sup>1</sup> Asset managers were asked to respond to the questionnaire on behalf of their insurance sector clients.

- Of those respondents that have **stopped or reduced investment**, by far the largest number say that this decision was **due to the high Solvency II capital charges for securitisation**. The administrative burden of investing in securitisation has also played a significant role in the reduction of insurer investment in the asset class.



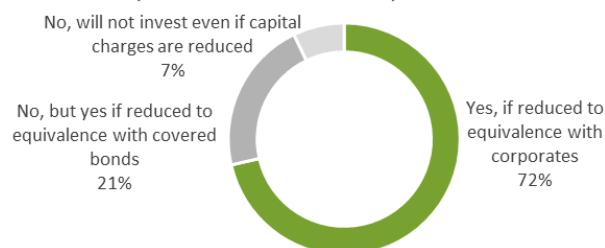
- Of those respondents **not currently planning to invest in STS transactions** with the current capital charges, **79% would invest if the charges were reduced to equivalence with corporate bonds**. A further 7% would invest if the capital charges were reduced to the level of covered bonds.

If you are NOT planning to invest in STS transactions with the current Solvency II capital charges, would you invest in STS securitisation if the capital charges were reduced to equivalence with any of the following options?



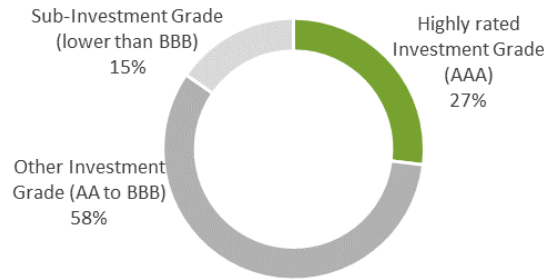
- Of those **investors that have withdrawn from the European securitisation market**, or have never invested in it, **72% of respondents said that they would invest if the STS capital charges were equivalent with corporate bonds**, and a further 21% if equivalent with covered bonds.

If you have withdrawn from the European securitisation market, or have never invested in it, do you believe that you would invest in STS transactions if the Solvency II capital charges are reduced to levels equivalent to those of corporate or covered bonds?



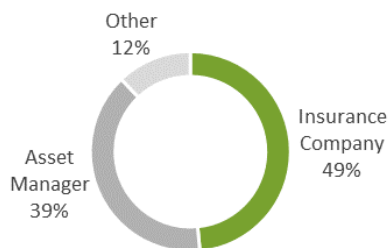
- Of the respondents currently investing in securitisation, the majority are **most likely to purchase tranches rated AA-BBB**. This indicates that investor interest will be focused outside the senior STS category in the Solvency II regulations, as tranches rated AA-BBB are highly likely to be either non-senior STS or part of non-STs transactions.

If you invest in securitisation transactions, what is the current seniority/rating of the tranche that you are most likely to purchase?

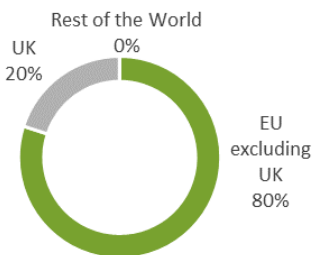


## All Survey responses

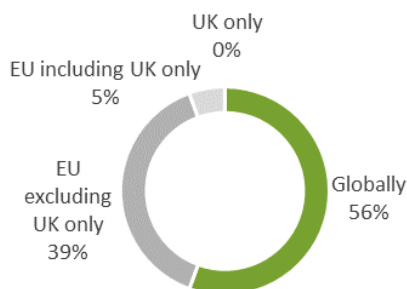
Q1 - Which best describes your company?



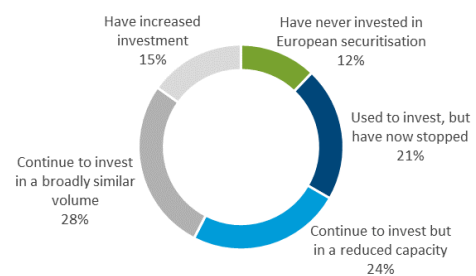
Q2 - If you are an insurance company, where are you based?



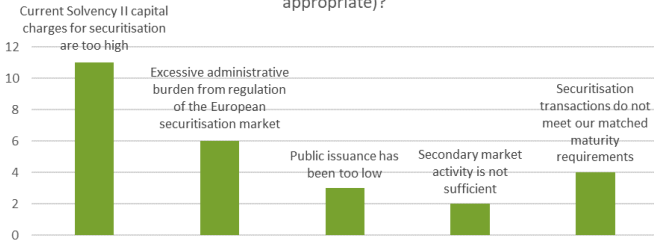
Q3 - If you are an asset manager, where are you based?



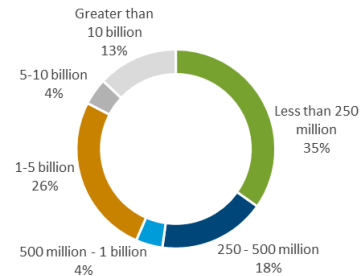
Q4 - Which of the following options most accurately describes your company's current investment position with regards to European securitisation?



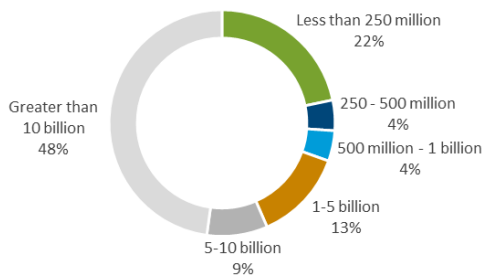
Q5 - If you used to invest in European securitisation and have now stopped, or have reduced the amount that you invest, which of the following impacted this decision (select more than one option if appropriate)?



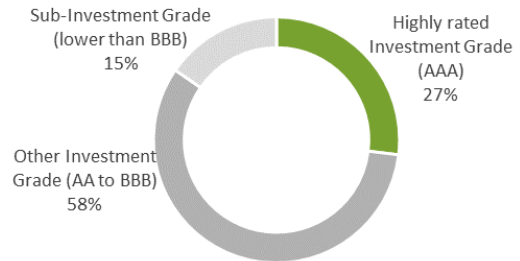
Q6 - If you invest in European securitisation, in what range is the total size of your current European securitisation investments (Euro equivalent)?



Q7 - In what range is the size of your overall investment portfolio? For asset managers please state the size of the portfolio invested on behalf of insurance clients. (Euro equivalent)



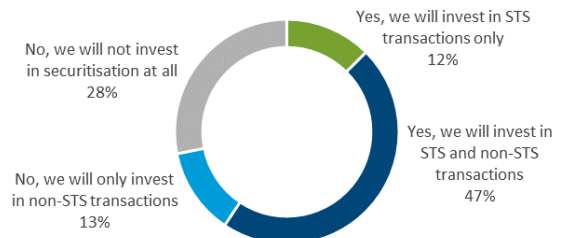
Q8 - If you invest in securitisation transactions, what is the current seniority/rating of the tranche that you are most likely to purchase?



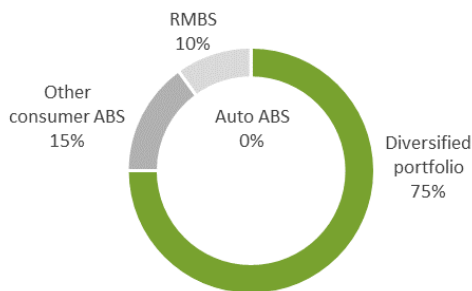
Q9 - If you invest in securitisation transactions, which of the following options, in the context of an asset/liability management strategy, best represents the risk that insurers are exposed to in terms of losses?



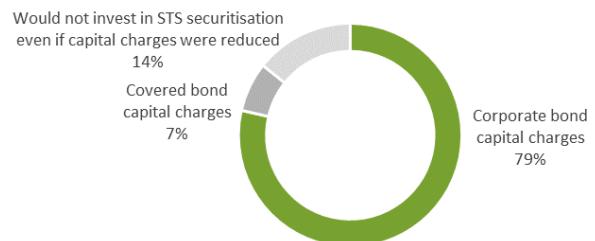
Q10 - Are you planning to invest in STS transactions if the current Solvency II capital charges are maintained?



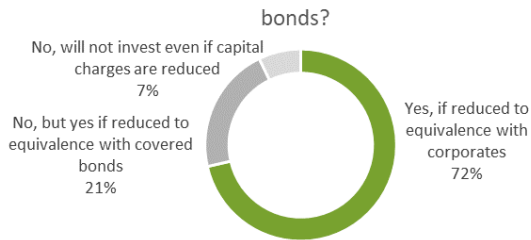
Q11 - If you are planning to invest in STS transactions with the Solvency II capital charges maintained at their current level, which classes of STS securitisations would you look to invest in?



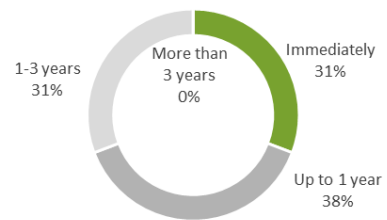
Q12 - If you are NOT planning to invest in STS transactions with the current Solvency II capital charges, would you invest in STS securitisation if the capital charges were reduced to equivalence with any of the following options?



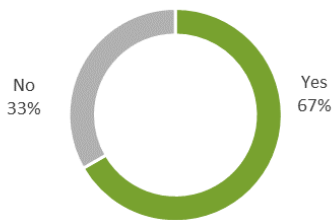
Q13 - If you have withdrawn from the European securitisation market, or have never invested in it, do you believe that you would invest in STS transactions if the Solvency II capital charges are reduced to levels equivalent to those of corporate or covered bonds?



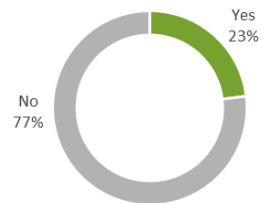
Q14 - If you answered Yes to the previous question, and lower Solvency II capital charges are adopted, how long do you think it will take you or your clients to be able to fully enter the market once the lower capital charges are implemented?



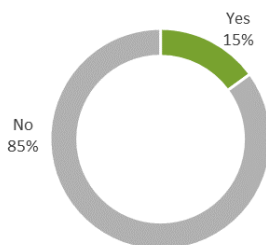
Q15 - If you invest in European securitisation, do you use internal models to calculate the capital requirements?



Q16 - If you do not currently use internal models, and assuming that Solvency II capital charges similar to corporate or covered bonds are adopted, would you develop an internal model for securitisation with the aim of reducing the capital requirements under the standard approach?



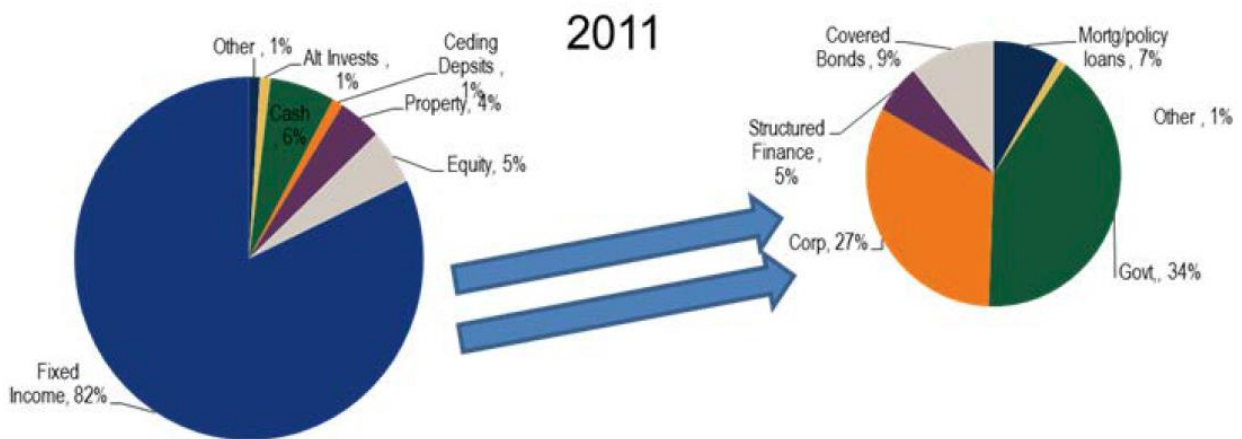
Q17 - Do you believe your local regulator would approve an internal model that significantly deviates from the standard approach?



## Annex 1 – BAML data on insurance company asset allocation

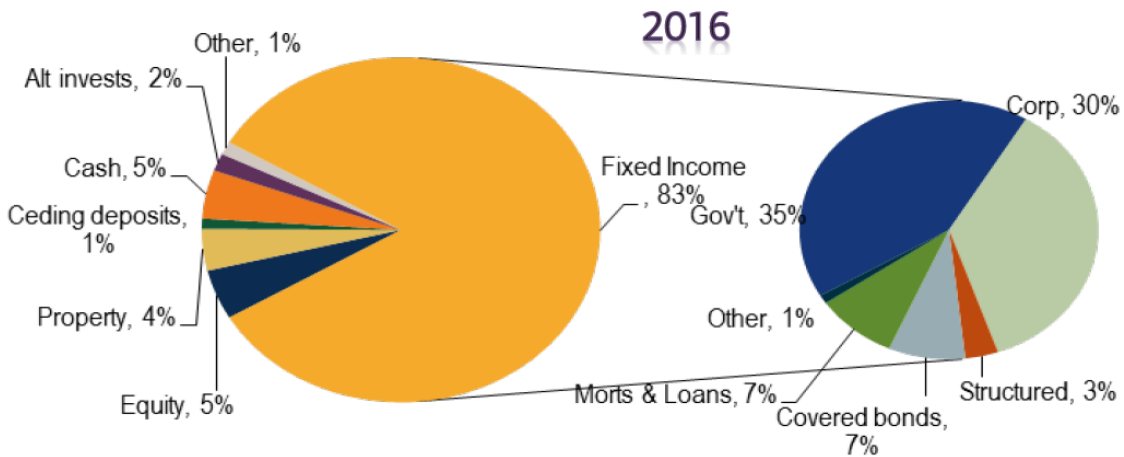
BAML’s insurance equity research team provided data on the portfolios of the 27 largest listed insurers in the EU between 2011 and 2016. The data shows that in this period, the allocation of assets to securitisation (‘Structured Finance’ or ‘Structured’ in the below charts) has dropped from 5% to 3% of total fixed income holdings.

Chart 9: European Insurer asset allocation (1)



Source: BofA Merrill Lynch Global Research.

Chart 11: European Insurers' Investment mix, 2016



Source: BofA Merrill Lynch Global Research.