

Joint industry position**Insurance Ireland & Association of Bermuda Insurers and Reinsurers (ABIR)****Enabling insurer participation in STS securitisation**

The ongoing review of the EU securitisation framework is central to achieving the objectives of the Savings & Investments Union (SIU) and strengthening Europe's financial competitiveness. A well-functioning securitisation market enables banks to manage risk efficiently, free up regulatory capital, and expand lending to households, SMEs, and long-term investment projects – often without transferring customer relationships or relying exclusively on funded capital market investors.

Within this framework, unfunded credit protection (UFCP) provided by non-life (re)insurers is a straightforward and well-established risk-transfer tool. By purchasing insurance against credit losses, banks can achieve significant risk transfer while retaining the underlying loan portfolios. Insurers have been active participants in the non-STS EU synthetic securitisation market since 2018 and operate under robust prudential, governance, and risk-management regimes, notably Solvency II and equivalent third-country supervisory frameworks.

This role is underpinned by the long-standing contribution of Insurance Ireland and ABIR members to the European market: Irish insurers paid out €74 billion in claims, safeguarded €300 billion in life & pension assets in 2023, and contributed €3 billion to the Irish Exchequer annually. In Europe specifically, ABIR members paid approximately €24.8 billion to European Union policyholders and cedants for property and casualty losses and life insurance claims over the five-year period from 2016 to 2020.

While the European Commission's proposal recognises, for the first time, the role insurers can play in STS synthetic securitisations, it unduly restricts their ability to participate in practice. In particular, the interaction of size thresholds, group recognition, and safeguard requirements would exclude many EU-authorised insurers that are part of groups headquartered in Solvency II-equivalent jurisdictions outside the EU, such as Bermuda and Switzerland, despite those groups being subject to comparable and comprehensive prudential supervision and already being active providers of credit risk transfer capacity to EU banks.

The practical effect would be a severely limited pool of eligible insurers, increased counterparty concentration risk, and a weakened STS unfunded credit protection market. Rather than mobilising additional private capital, the proposal as currently drafted risks excluding credible insurance capacity, reducing banks' risk-management options, and constraining lending, especially for core asset classes such as residential mortgages, SME loans, and long-tenor infrastructure finance.

Insurance Ireland and ABIR therefore jointly support targeted, proportionate clarifications to the securitisation package that preserve strong prudential safeguards while ensuring that the framework is workable in practice, reflects how insurance groups are supervised, and allows a sufficiently broad and competitive pool of insurers to support the real economy in the EU.

Key joint asks to the Commission and the EU co-legislators

1. Recognise group strength, including Solvency II-equivalent groups (Article 26e(8)(aa)(iv) SECR)

- Co-legislators can reach a balanced trilogue compromise between the Council's EU-only approach and the Rapporteur's EU and non-EU proposal. This approach should keep the credit protection provider in the EU, fully meeting the Council's core supervisory and enforcement objectives, while allowing group strength to be recognised only where it is subject to Solvency II group supervision. The compromise amendment could be as follows:

"the undertaking providing the credit protection is based in the European Union and any of the following conditions are fulfilled:

- *the value of the total assets, calculated in accordance with article 75 of Directive 2009/138/EC, of the insurance or reinsurance undertaking providing the unfunded credit protection exceed EUR 1 billion; or*
- *where that undertaking is not part of the same group as the originator and is a subsidiary of a group subject to group supervision within the meaning of Article 213(2), points (a) or (b), or is subject to equivalent group supervision in accordance with Article 213 (2) point (c) as provided for at Article 260, of Directive 2009/138/EC, the value of the total assets of the parent undertaking of that group exceeds EUR 10 billion, and there are financial arrangements, which may include reinsurance, including ancillary own funds, parental guarantees or a combination of financial arrangements, ensuring effective financial support by the parent undertaking to the insurance or reinsurance undertaking, including in the event that the latter is unable to provide timely compensation to the originating credit institution."*

- (Re)insurers hold the majority of their assets at ultimate parent level rather than at carrier level to enable flexible capital deployment, and asset strength should therefore be assessed on a group basis. Excluding Solvency II-equivalent jurisdictions would, in practice, prevent Bermudian and Swiss (re)insurers that are currently active in the SRT market from accessing the STS market, thereby removing proven and well-regulated sources of credit risk transfer capacity and undermining the objective of broadening market participation.

2. Calibrate size safeguards to market reality (Article 26e(8)(aa)(iv) SECR)

- Notwithstanding the industry's belief that size alone is not a proxy for underwriting quality and noting that banks' counterparty risk frameworks already assess insurer strength, a €1 billion threshold at undertaking level or €10 billion at ultimate parent level (based on total assets in audited accounts) would allow for a functioning STS market while preserving resilience.

3. Clarify eligible financial arrangements (Article 26e(8)(aa)(iv) SECR)

- For the purposes of assessing effective capacity, "financial arrangements" should be interpreted broadly, and may include reinsurance (including intra-group reinsurance), ancillary own funds, parental guarantees, or a combination of such financial arrangements.
- The EU subsidiary remains the entity providing protection and continues to be supervised by its EU national competent authority.

4. Avoid unnecessary barriers from internal model requirements (Article 26e(8)(aa)(i) SECR)

- Insurers using the Solvency II standard formula should remain eligible, provided that their national competent authority has explicitly raised no objection following an assessment of capital strength, risk management, governance, and underwriting policies.
- This approach does not create an "open door" system. Instead, it provides a carefully controlled option for insurers using standard formula models. Approval depends on four key

criteria: (1) capital strength; (2) the quality of the risk-management framework; (3) governance standards; and (4) underwriting policies.

- Requiring firms to develop an internal model solely for SRT purposes would be disproportionate, especially given the size of the business – typically, the credit business represents less than 2% of non-life gross written premium, while SRT business is only a fraction of credit – requiring material additional resources from the (re)insurance supervisors.

5. Ensure proportionate diversification safeguards (Article 26e(8)(aa)(iii) SECR)

- Diversification requirements are important and should be maintained. The requirement should avoid fixed percentage limits of non-life technical provisions, particularly at solo entity level, and where relevant be assessed at group level where the risk and assets are maintained.

6. Preserve access across STS, non-STS, and 'resilient' transactions (Art. 243(4)(a)(2) CRR in conjunction with Article 26e(8)–(10) SECR)

- Insurers should continue to be able to participate in STS and non-STS transactions, including resilient structures, subject to risk-appropriate safeguards. The Commission's proposal linking "Non-STS Resilient" to the "STS" criteria, any undertaking not eligible in STS will lose access to the existing market. Therefore, support the complete deletion of CRR 243(4)(a)(2).

About Insurance Ireland

Ireland is a thriving global hub for insurance, reinsurance and captives and Insurtech. Ireland's insurance market is the fourth largest in the EU, and our Reinsurance market is the second largest. Our members represent around 95% of the companies operating in the Irish market, making Insurance Ireland a strong leadership voice for the sector.

Insurance Ireland members are progressive, innovative and inclusive, providing competitive and sustainable products and services to customers and businesses across the Life and Pensions, General, Health, Reinsurance and Captive sectors in Ireland and across the globe.

In Ireland, our members pay more than €13bn in claims annually and safeguard the financial future of customers through €112.3bn of life and pensions savings. Our members contribute €1.6bn annually to the Irish Exchequer and the sector directly employs over 18,000 people in high skilled careers.

About ABIR

Bermuda is a leading global hub for insurance and reinsurance, with ABIR members reaching record capital levels in 2024 to deploy across the 150 jurisdictions in which they operate. Bermuda represents an estimated 35% of global reinsurance capacity and 15% of global reinsurance capital, underscoring its central role in the international risk transfer market.

As of 30 June 2024, listed Bermuda-based entities alone accounted for approximately €235.0 billion in market capitalisation, highlighting the depth, resilience and strength of Bermuda's capital base. ABIR members provide critical insurance and reinsurance capacity across a wide range of property and casualty and life risks, supporting economic stability and recovery worldwide.

In Europe, ABIR members have made a substantial contribution to risk protection, paying approximately €27.0 billion to European Union policyholders and cedants for property and casualty losses and life insurance claims between 2016 and 2020. In addition, ABIR members have written approximately 20% of broker-placed European property catastrophe reinsurance, demonstrating their importance to Europe's resilience against natural catastrophe risk.

What is equivalence under the EU's Solvency II?

Solvency II is the European Union's regulatory framework designed to ensure insurance and reinsurance companies are financially sound, well governed and able to pay claims, even in extreme events such as major natural catastrophes. When a non-EU country is deemed "Solvency II equivalent," it means its insurance regulatory system achieves the same outcomes as the EU framework, even if the rules are not identical. This assessment is carried out by the EU and its insurance authority, EIOPA, and is based on factors such as risk-based capital requirements, governance, supervision and transparency. It is also a recognition of the fact that the insurance industry is a global industry and that international markets should therefore remain open, accessible and interconnected. In the word of EIOPA itself, "positive equivalence findings are mutually beneficial to European Economic Area (EEA) (re)insurers and third country (re)insurers."

Bermuda was the second jurisdiction to be recognised Solvency II equivalent meaning that its commercial insurers and reinsurers are recognised as being regulated to the same high standard as EU firms. As a result, Bermuda-based companies can compete fairly and operate in the EU without facing additional regulatory or capital burdens simply because they are located outside the EU. It also reflects the EU's confidence in the Bermuda Monetary Authority (BMA) as a group supervisor and helps ensure that European insurers, businesses and consumers continue to benefit from access to well-regulated global reinsurance capacity. Solvency II equivalence applies to Bermuda's groups and commercial (re)insurers including the island's Classes 3A, 3B and 4 (re)insurers, and Long-Term (life) Classes C, D and E (re)insurers given the significant business conducted within Europe by these classes.