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# Securitisation reforms

A new chapter for European insurers'  
portfolios

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## A new chapter for European insurers' portfolios

European insurance regulations are changing. From January 2027, Solvency II reforms will significantly reduce capital requirements for some securitised assets, unlocking higher-yielding investments like AAA CLOs for insurers. This paves the way for European insurers, who today allocate less than 1% to securitised credit<sup>1</sup> to seek to catch up to global peers and target returns with diversified, capital-efficient assets.

In this article, we focus on publicly listed securitised assets, rather than private or asset-based finance (ABF) strategies, where the regulatory and liquidity considerations can differ. We explain what securitisations are, why we believe they fit well on insurance balance sheets, what exactly is changing in the rules, and how insurers can seek to take advantage of this new opportunity.

### What are securitised assets?

Securitisation turns pools of financial assets (loans, leases, mortgages) into tradable bonds called asset-backed securities (ABS). The process of securitisation redistributes risk via tranches, allowing investors to access different risk-return profiles. Senior tranches (typically AAA/AA) have first claim on cashflows, mezzanine tranches carry intermediate risk, while junior or equity tranches absorb first losses and are usually unrated.

The securitised universe is broad, spanning:

- RMBS (Residential Mortgage-Backed Securities, backed by home loans)
- CMBS (Commercial Mortgage-Backed Securities, backed by commercial property loans)
- Consumer ABS (backed by things like auto loans, credit cards, and equipment leases)
- Commercial ABS (backed by things like shipping containers, business franchises, data centres)
- CLOs (Collateralised Loan Obligations, backed by pools of corporate loans)

Globally, securitisation is a large and established market, but Europe remains small relative to the US. The US securitised market is c.€11 trillion outstanding, compared with c.€0.5 trillion in Europe, reflecting post-crisis regulatory constraints and market fragmentation<sup>2</sup>.

We believe that securitised assets are well-suited to insurers' balance sheets. They target attractive risk-adjusted returns versus equivalently rated corporate bonds, diversification<sup>3</sup> away from corporate balance-sheet lending, and access to deep and active secondary markets, targeting good liquidity in normal conditions. Cashflows are contractually bound with many structures floating-rate.

Crucially, structural protections such as subordination and excess spread mean senior tranches are highly insulated from defaults. For example, there have been no defaults in US CLO tranches rated AAA–A since 2009, highlighting the resilience of senior securitised credit through stress cycles. Importantly, this track record reflects the post-crisis CLO 2.0 market, characterised by stronger documentation and more conservative underwriting and assumptions.

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<sup>1</sup> Source: EIOPA

<sup>2</sup> Source NAIC, end 2024.

<sup>3</sup> **It should be noted that diversification is no guarantee against a loss in a declining market.**

### Why have European Insurers Lagged in Securitisation?

After the Global Financial Crisis, European regulators took a very cautious stance on securitisations. This was done despite widespread regulatory reform of the securitised markets. Solvency II, introduced in 2016, treated securitised assets as if they were extremely risky. The Standard Formula capital charges (SCR) for holding them were punitive, especially for anything not meeting the strict STS (Simple, Transparent, Standardised) criteria.

European securitisations meeting certain quality criteria can carry an STS label, which has given them more favourable insurance capital treatment since the label was introduced into Solvency 2 in 2019. Notably, CLOs and CMBS cannot qualify as STS, due to how STS rules are defined – a factor that carries a big capital penalty pre-reforms next year (more on this later).

Under the current Standard Formula, a 5-year AAA non-STS securitisation (like a typical CLO tranche) incurs a higher capital charge than equities (around 60% of the exposure vs. 39% for developed market equities, pre symmetric adjustment). In contrast, a 5-year AAA corporate bond's charge is only about 5%.

This regulatory disparity made many investments in securitised assets simply uneconomical for insurers using the Standard Formula. European insurers with an internal model, have been able to justify a more economic capital charge for securitized assets (e.g. by referencing historic volatility, default rates), however the vast majority of European insurers, particularly small/medium size insurers, calculate regulatory capital using the Standard Formula.

In an international comparison, the treatment for European insurers is less favourable. By contrast to the current rules for European insurers, the regulatory capital treatment in the US is more favourable for securitized and as a result allocation to securitised assets sits at c.16%<sup>4</sup> – see our recent blogpost:

<https://am.landq.us.com/insights/insights-blog/2026/us-insurers-growing-securitized-allocations/>.

In the UK, insurance regulatory reforms post Brexit, has removed barriers to some UK life insurers investing in securitized assets with prepayment risk – see our whitepaper on this topic:

<https://am.landq.com/asset/48fc9d/globalassets/lqim/capabilities/insurance/new-investment-opp-for-life-insurers-in-assets-with-hp-cashflows-under-suk-reforms.pdf/>

### Solvency II Reforms: What Changes in 2027?

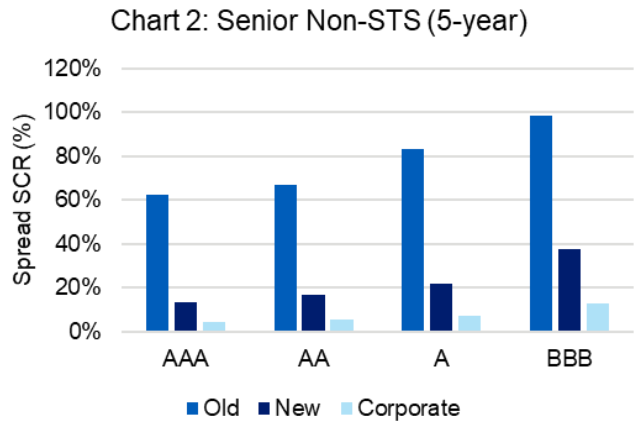
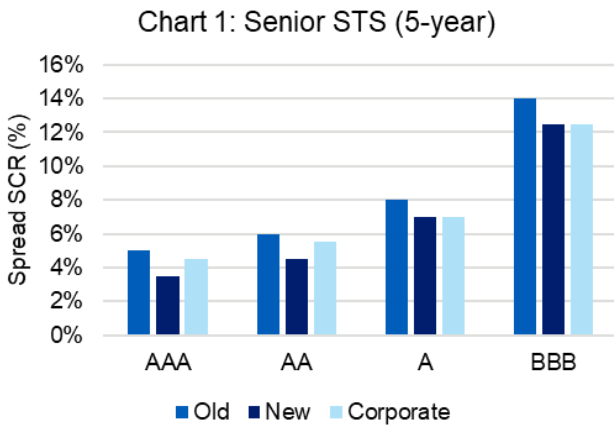
The forthcoming Solvency II Delegated Regulation amendments represent a major recalibration of spread risk capital charges for securitisations. In simple terms, insurers will need to set aside far less capital to invest in qualifying securitised assets. The reform details:

- **Senior vs. Non-Senior:** The new rules explicitly recognise that senior tranches carry lower credit risk than non-senior tranches. Senior securitisation positions (those at the top of the waterfall) will have much lower capital factors than before, and much lower than non-senior tranches of the same rating.
- **STS vs. Non-STS:** Assets meeting the STS criteria keep a capital advantage, but non-STS securitisations also see dramatic relief.

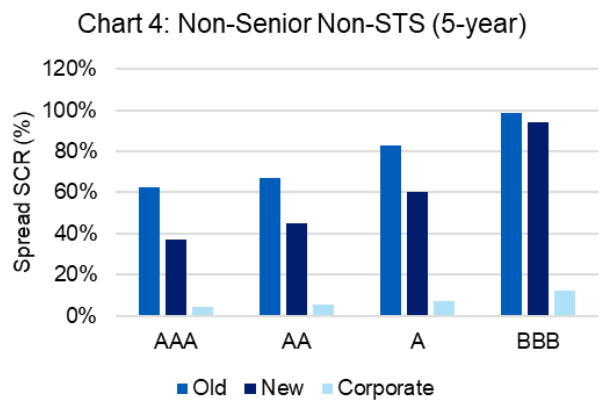
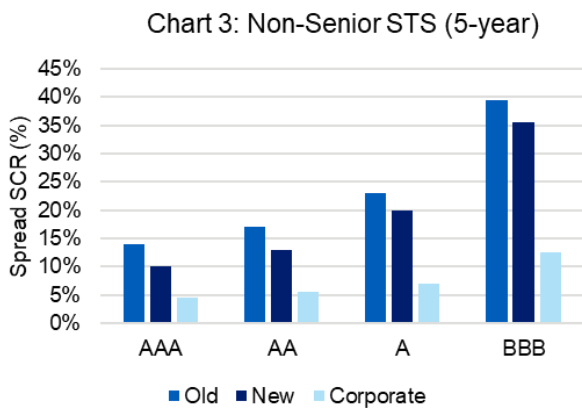
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<sup>4</sup> Source NAIC, end 2024. Securitised definition including ABS and Other Structured Securities, Agency-Backed RMBS and CMBS, Private-Label CMBS and RMBS.

**Senior STS and Non-STS capital charges: old vs. new**



**Non-Senior STS and Non-Senior Non-STS Capital Charges: Old vs. new**



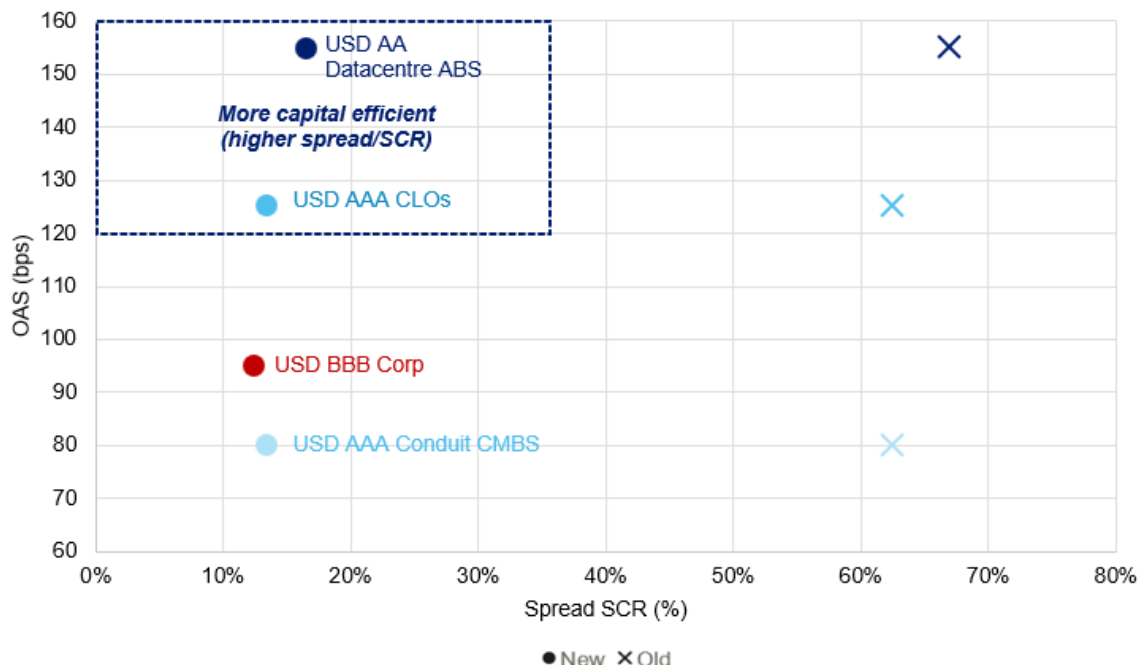
Source for charts: L&G, May 2026. **The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.**

From the above charts, it can be seen that the largest relief is for senior non-STS tranches (chart 2). Capital charges on assets such as AAA CLOs fall by around 70-80%, bringing them much closer to, albeit still higher than equivalent-rated, corporate bonds and materially improving the potential attractiveness of senior securitised assets for European insurers.

In effect, high-quality senior securitised bonds will become almost as (if not more) capital efficient as corporate bonds for European insurers. We can see this in the following chart.

### Illustration of capital efficiency for 5-year Senior Non-STS (%)

Chart 5: Illustration for 5-year Senior Non-STS (%)



Source: L&G, Bloomberg 30 April 2026. **The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**

As can be seen from the chart, the new regulations will lower capital requirements, potentially making US AAA CLOs more attractive on a 'spread/SCR' basis.

While it is possible for senior tranches to be rated sub-AAA (assuming the tranche still sits at the top of the waterfall structure), in practice sub-AAA senior tranches are typically found in Commercial ABS (e.g. Datacentres ABS). We therefore focus our attention on senior securitised bonds within these markets. Under the current standard formula, a AAA-rated non-STS CLO with 5-year requires c.60% of its value in required capital (for spread risk). With the 2027 reform, that drops to roughly c.13%, a ~75% reduction in required capital. AA-rated senior tranches likewise drop (e.g. from c.67% to c.17%).

In effect, high-quality securitised bonds will become almost as capital efficient as corporate bonds for European insurers. A quick comparison: for a 5-year AAA CLO yielding say 125bps, the spread-per-capital will jump from a paltry 2bps (old rules) to around 9bps (new rules) per unit of capital, on par with a BBB corporate bond. Hence senior high-quality CLOs in our view are likely to become core holdings for insurer portfolios.

While securitised bonds may offer higher spread-per-unit of capital than comparable non-securitised bonds, their eligibility under Solvency II is subject to an additional requirement: at least two external credit ratings, versus only one for non-securitised bonds. Under the upcoming reforms, this requirement will be reduced to one rating for STS securitisations, although the two-rating threshold will remain in place for non-STS securitisations.

Of course, in all cases the Prudent Person Principle applies. Insurers must thoroughly understand the risks of any new investment. Securitised assets are complex instruments; prudent investing requires the right expertise, rigorous analysis, and often a specialist asset manager partnership to manage them effectively. Detailed data and reporting, including bespoke analytics and stress testing capability, for example to evaluate prepayment and extension risk, are key considerations when insurers are selecting an asset management partner.

**Case study 1 – Allocating to US CLOs and other ABS in fixed income portfolio<sup>5</sup>**

We see a potential opportunity for European insurers in senior non-STS transactions – particularly AAA CLOs, as well as senior Commercial ABS (e.g. data centres). We can illustrate this below with a case study for an indicative insurer credit portfolio.

A typical fixed income portfolio for a European insurer will be heavily focused toward investment-grade public market credit, with a meaningful sovereign bond allocation too. We show below that a typical insurer corporate bond allocation can benefit from an enhanced return (spread) and capital efficiency (spread per SCR), with slightly reduced credit risk (slightly improved average credit rating and same spread duration) by introducing a relatively small (e.g. 15%) allocation to securitised credit. In this example, this comprises mostly of senior AAA-rated CLOs, alongside senior AA-rated Commercial ABS and we have assumed that any currency risk is hedged back to euros.

**Indicative impact of including securitised credit within an insurance credit portfolio**

Chart 6: Insurer bond portfolio  
Spread ~70bps

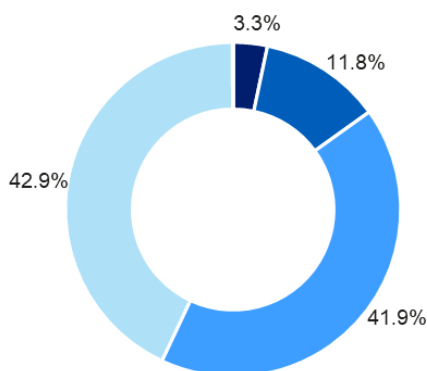
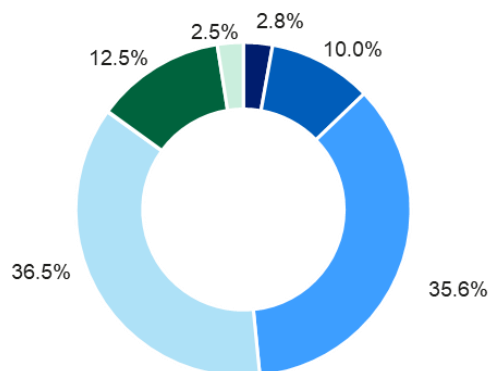


Chart 7: Insurer bond portfolio with securitised  
Spread ~80bps



- Corporate (AAA) ■ Corporate (AA) ■ Corporate (A)
- Corporate (BBB) ■ Senior CLO (AAA) ■ Senior ABS (AA)

Portfolio	Average rating	Duration	Spread (bps)	Spread SCR	Spread/SCR
Corporate only	BBB+ (208)	5.0	71.8	9.1%	7.9%
<b>Corporate + securitised</b>	<b>A- (177)</b>	<b>5.0</b>	<b>80.5</b>	<b>9.8%</b>	<b>8.2%</b>

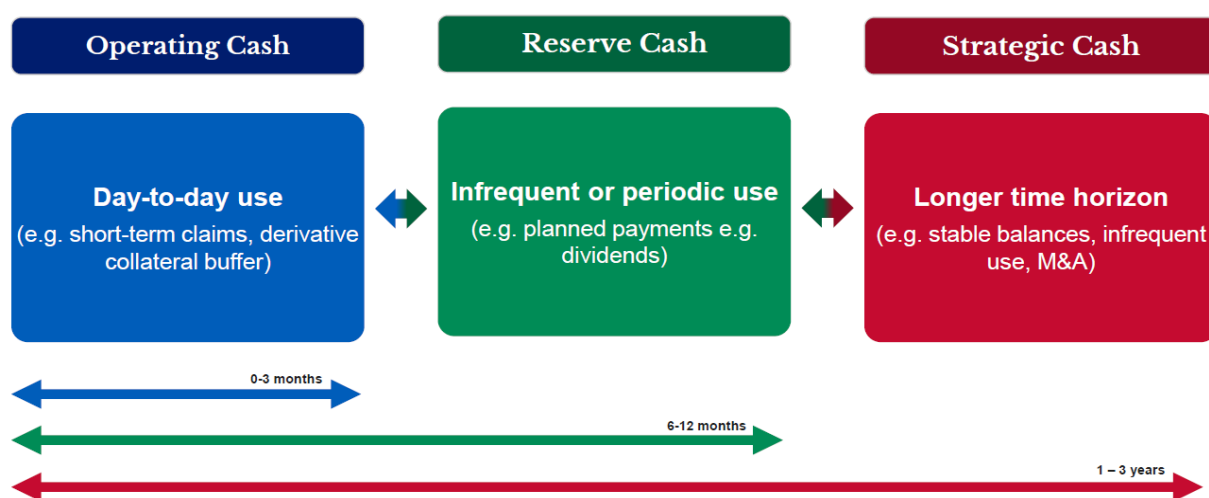
Source: L&G, 30 April 2026. Spread shown relative to government bonds for illustrative purposes. Duration may differ in practice from the example shown above depending on insurer type. Weighted Average Rating Factor (WARF) shown in brackets for average rating. A portfolio with a lower WARF is more desirable as this indicates a higher average credit rating. **The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.**

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### Case study 2 – Liquidity optimisation<sup>6</sup>

Liquidity allocations are sometimes a neglected part of an insurer's portfolio, often invested in cash deposits (with a custodian) or money market funds earning little more than a cash-like return.

We advocate a more granular approach for insurers considering their liquidity needs with three broad categories illustrated below. As part of this framework, we believe securitised assets (e.g. AAA CLOs) can play a role for European insurers as a potential asset class to back strategic (or reserve) cash requirements. Even a modest 10% allocation, within a liquidity sub-portfolio, could potentially increase the expected return on the liquidity sub-portfolio by 10-15bps p.a. versus a cash-only starting portfolio.



Source: L&G, April 2026. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

### Partnering for success in securitised credit

In summary, the forthcoming Solvency II reforms are set to move securitised credit from the margins to the mainstream for European insurers. We believe that the combination of potentially attractive yields and materially lower capital charges makes this an opportunity that is increasingly hard to ignore. That said, success will depend on navigating a complex market and selecting assets with care.

Senior tranches of CLOs and senior tranches of commercial ABS (e.g. data centres) stand out. In a tight spread environment, we believe they offer the potential for attractive risk-adjusted returns relative to traditional corporate credit, and the new regulations now make them accessible to European insurers on a capital-efficient basis. With the right asset management partner and a disciplined approach, we believe insurers can use securitised credit to diversify away from corporate balance-sheet risk, enhance returns and strengthen portfolio resilience – while continuing to uphold prudence and long-term stability.

### Specialist securitized expertise from a European leader

At L&G, we believe we offer a differentiated advantage. With over 15 years of experience investing in securitised credit on our own insurance balance sheet, we now manage around \$5.5 billion<sup>7</sup> in securitised assets for both our own balance sheet and for insurance and other institutional clients globally. As part of the top European manager of European institutional assets<sup>8</sup>, we bring deep expertise in Solvency II and other regulatory frameworks, ensuring strategies are customised aligned with insurance capital efficiency from day one.

<sup>6</sup> Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

<sup>7</sup> Source: L&G internal data

<sup>8</sup> Source: IPE 2025, Top 500 Asset Managers Report 2025. Data as at 31 December 2024.

### Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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