afme/
Finance for Europe

Association for Financial Markets in Europe

April 2012

AFME Securitisation Investor Survey

Impact of Proposed Solvency II Capital Charges on Securitisation Investment

Introduction

In late 2011, the European Commission proposed Solvency II Level Two capital charges of 7% per year of duration on the market value of AAA rated securitisations held by European insurers utilising the standardised approach. At a time when changes in bank capital requirements are likely to put pressure on the amount of finance available to fund the real economy (mortgages, personal loans, SMEs and other asset classes), these proposed capital charges are already sending a very negative signal to investors in all securitisations. This includes the vast majority of European securitisations, which have performed well from a credit standpoint in the crisis, and have also outperformed many other asset classes such as sovereigns, bank debt and many covered bonds in the secondary market (see separate AFME Briefing Note: the damaging impact of the Solvency II capital charges on EU economic recovery, growth and financial stability - April 2012). Survey results indicate that the proposed Solvency II capital charges are likely to cause a permanent drop in securitisation funding, which is likely seriously to reduce future growth in Europe. To provide empirical evidence to support these concerns, AFME conducted a survey of insurance investors in early 2012.

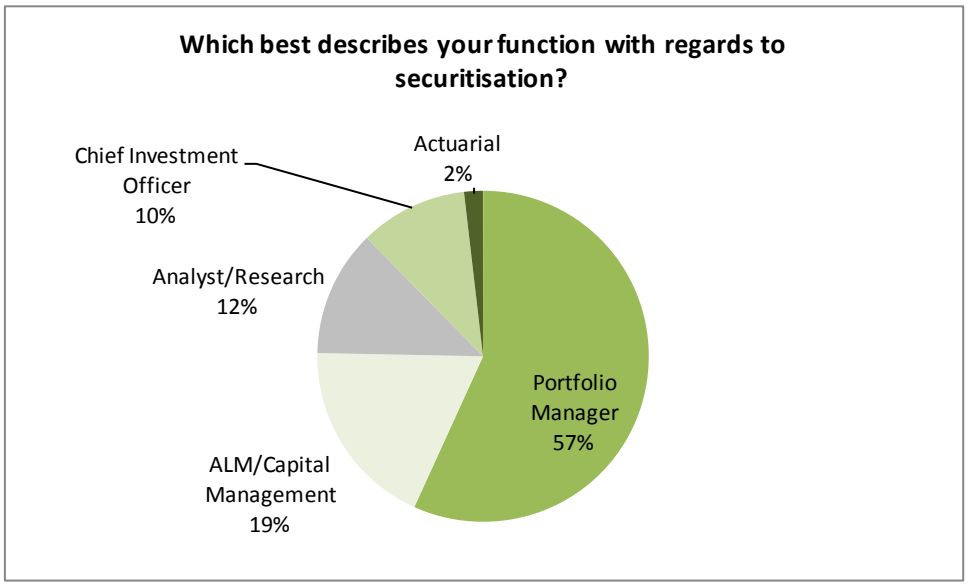
Executive Summary of Results

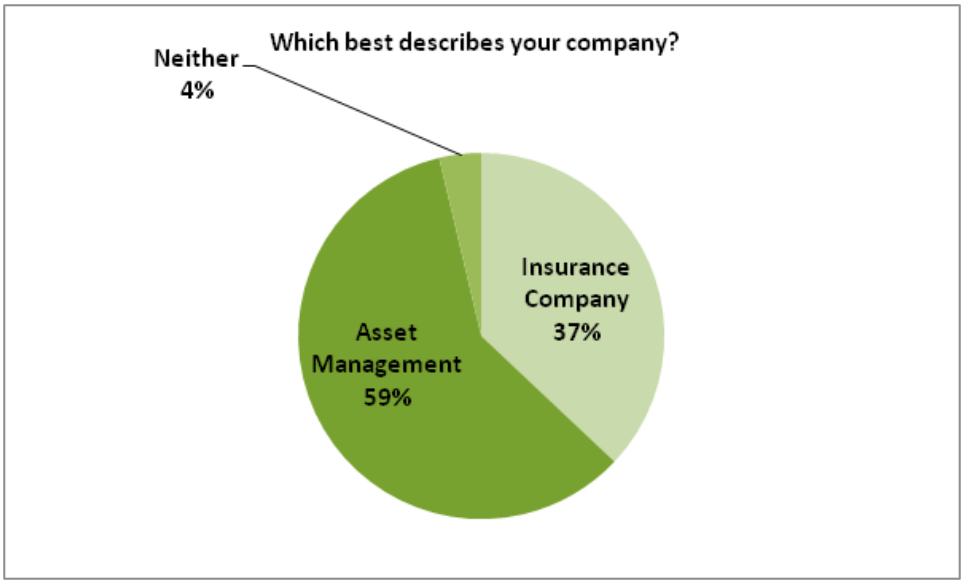
AFME surveyed 27 Europe-based insurance companies and asset managers who collectively hold or manage more than Euro 5 trillion in global assets. Key findings were:

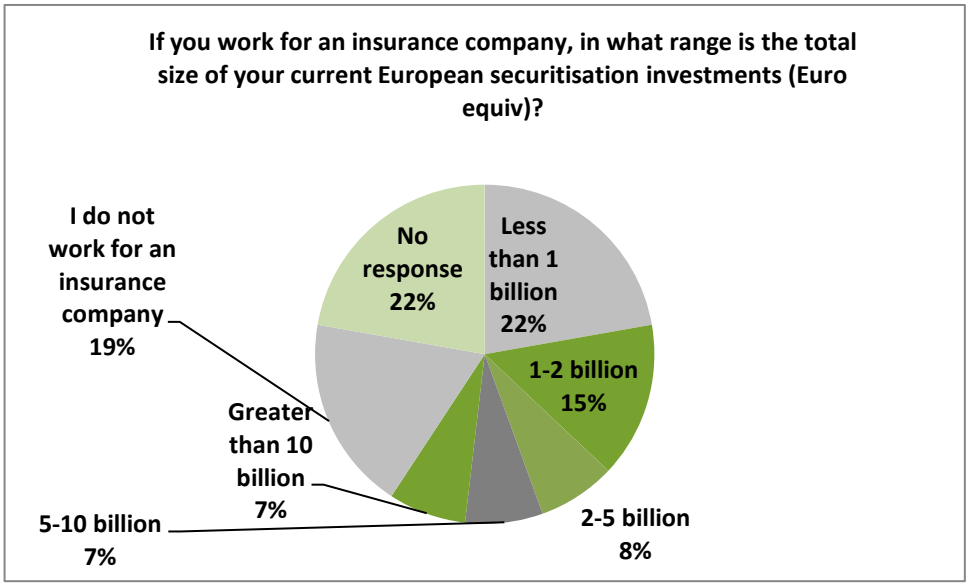
a) 100% of respondents indicated that the proposed rules would either stop (33%) or dramatically reduce (67%) their willingness to allocate funds to the securitisation sector.
b) 85% of those who indicated that Solvency II would result in a reallocation of funds indicated that at least half would be reallocated away from securitisation.
c) 22% of respondents said that if the proposed capital charges were enacted, they would never return.
d) Of those who would return to the sector, 65% said this process would take more than one year and almost a fifth said it would take three years or more.
e) 56% of respondents indicated that the proposed capital charges would incentivise them to develop their own internal models; however, more than half of respondents believed that their regulator would not approve their internal model if the results were materially different from those generated by the standardised approach.

Survey Sample and Description of Respondents

The survey received responses from a broad variety of 27 insurers and asset managers in a variety of European countries. Amongst asset managers, some managed insurance funds as a small part of their business whilst others had more than half their assets under management invested for insurers. In terms of the amounts invested in European securitisation by the insurance companies who responded, again the range was quite broad, going from less than 1 billion EUR (22%) to more than 10 billion EUR (7%).

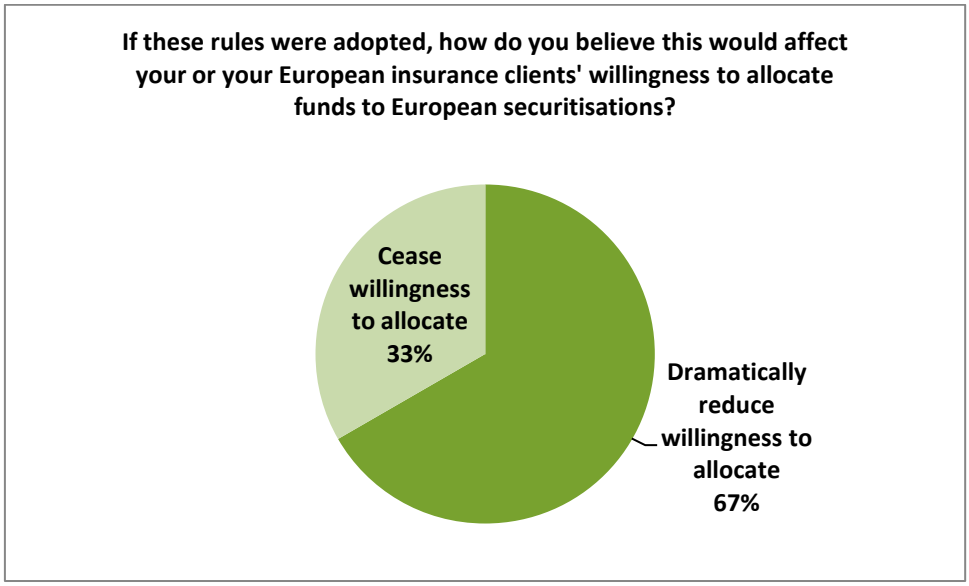




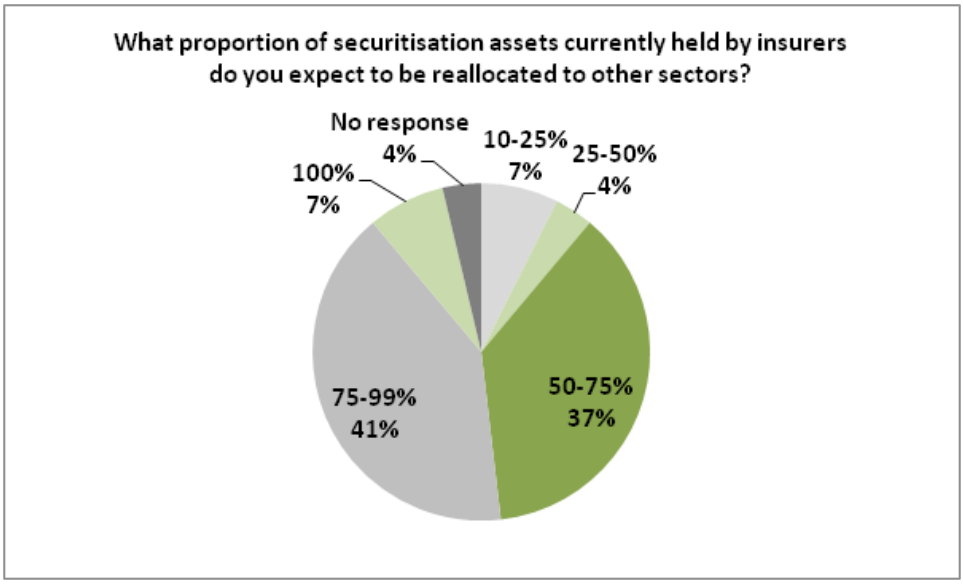


Survey Results

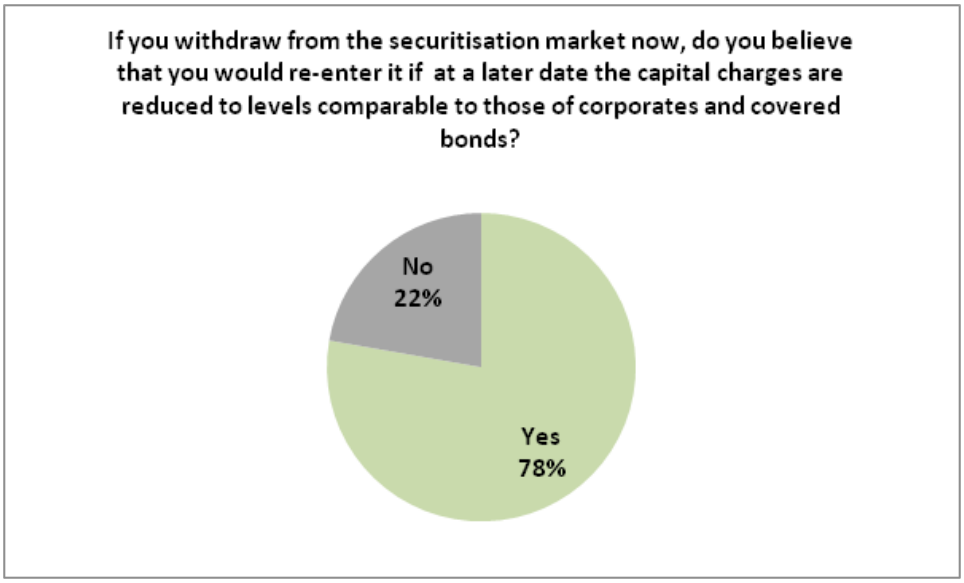
There was unanimity amongst respondents that the proposed rules would have a very substantial impact on European insurance companies' allocation of funds to securitisation. Not a single respondent answered that the measures would have no impact or a moderate impact on the willingness to invest. Fully one third believe it would stop investment by insurance companies altogether.



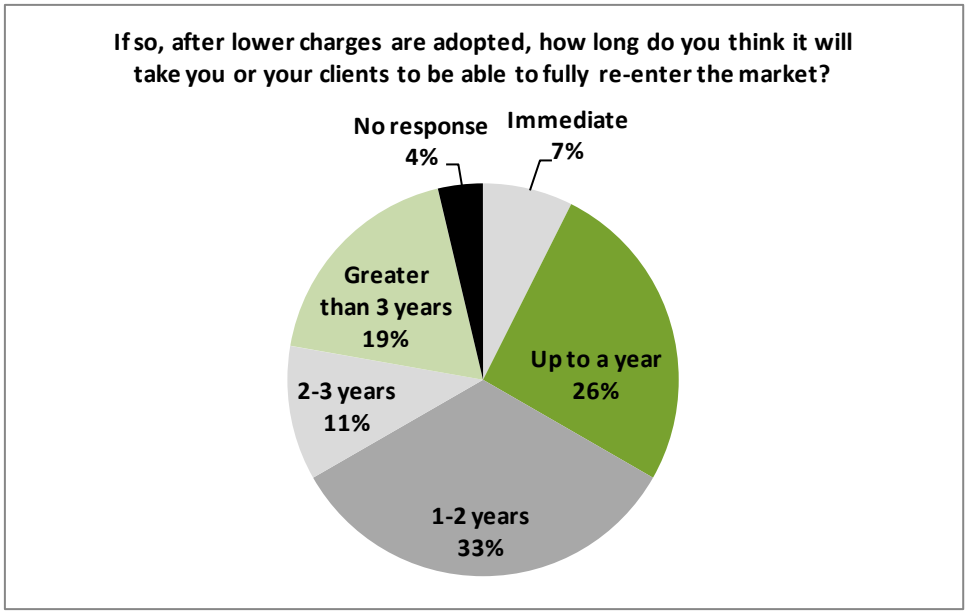
As to the scale of re-allocation, a large majority thought it would be very substantial. Almost half (48%) thought that more than three quarters of funds currently allocated to securitisation would be moved to other sectors and almost all (85%) thought that at least one half or more would be re-allocated.



Almost one quarter believed that, once insurance companies had exited the securitisation investment field, they would never return – even if, at a later date, the capital charges were reduced.

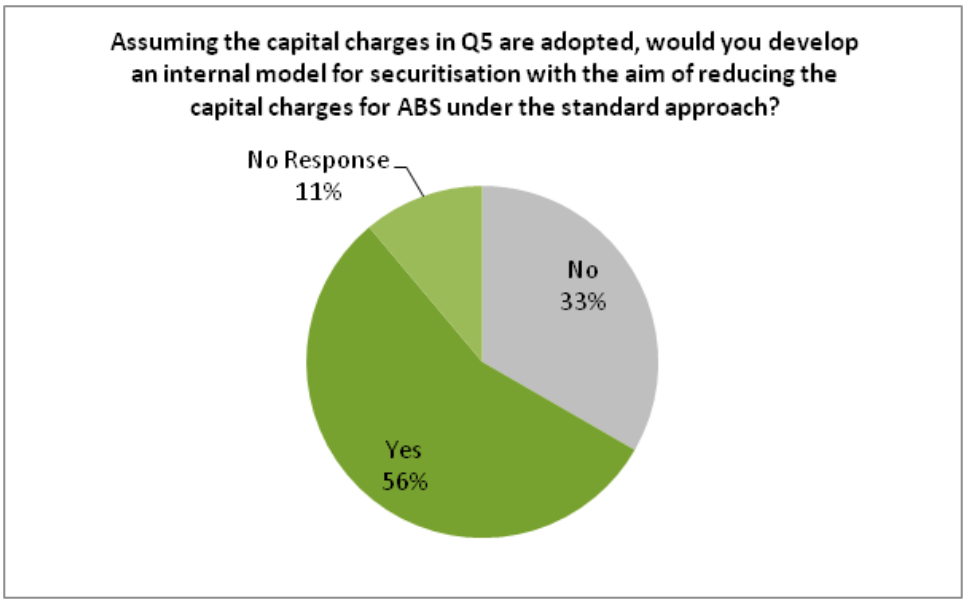


Even amongst those who believed that insurance companies might return to this investment sector at a later stage should the capital charges be reduced, a strong majority (63%) thought it would take at least a year and almost a fifth thought the process would take at least 3 years.

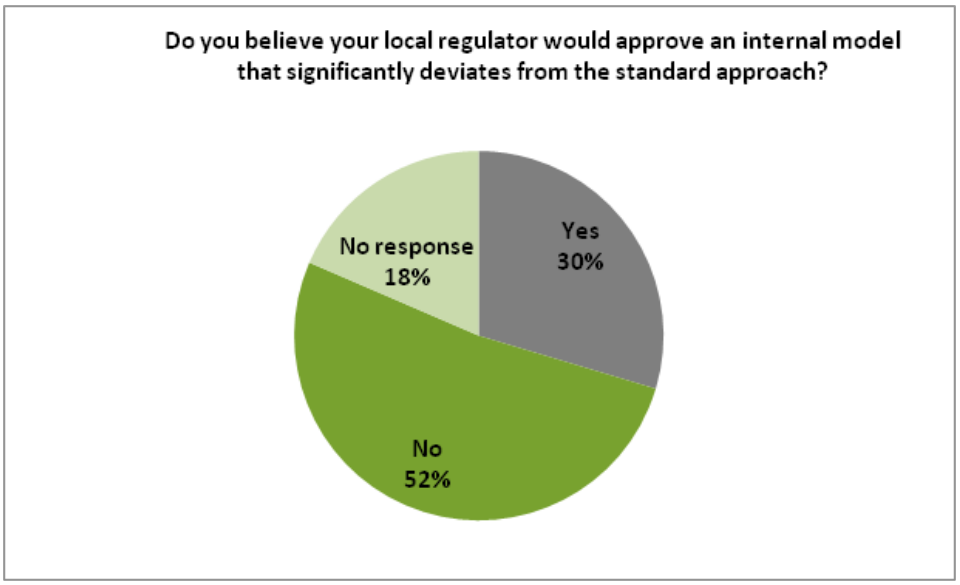


Internal Models

Although a little more than half (56%) of respondents did think that they would develop an internal model with the aim of reducing capital charges...



...more than half also believed that, based on their detailed and extensive knowledge of insurance regulators, such regulators would not accept such an internal model if it deviated significantly from the standard approach.



Conclusion and Recommendation

Based on the above results, managers of insurance funds indicate serious concerns about the impact of the proposed capital charges on future securitisation investment. AFME recommends that policymakers delegate the assessment of securitisation capital charges to the EIOPA Technical Expert Group, or alternatively conduct further research on the appropriate calibration, based on the concerns expressed in the 22 November 2011 AFME publication "Solvency II: Level 2 capital charge treatment of securitisation", included as Appendix One of "AFME Briefing Note: the damaging impact of the Solvency II capital charges on EU economic recovery, growth and financial stability - April 2012".

Association for Financial Markets in Europe
St Michael's House
1 George Yard
London EC3V 9DH
Tel: + 44 (0)20 7743 9300
www.afme.eu