
Press Release

11/04/2012

Economic recovery will be hampered by negative impact of Solvency II on securitisation investment, according to new AFME Securitisation Investor Survey

Proposed Solvency II rules around securitisation will dramatically reduce the willingness of insurers to invest in securitisation assets, according to the *Securitisation Investor Survey*, a new survey of leading asset managers and insurance companies carried out by the Association for Financial Markets in Europe (AFME). AFME canvassed the views of 27 Europe-based insurance companies and asset managers who collectively hold or manage more than €5 trillion in global assets.

A third (33%) of insurers polled said the new rules would stop investment altogether, with the remaining two-thirds (67%) saying they would dramatically reduce allocation of funds to the securitisation sector.

In late 2011, the European Commission proposed Solvency II capital charges of 7% of market value per year of duration on AAA-rated securitisations held by insurance companies, compared with 0.9% for corporates and 0.7% for covered bonds.

Significantly, more than one in five insurers (22%) who stated that they would withdraw from the securitisation market now if the proposed rules were enacted, said they would never return - even if the capital charges were in future reduced to levels more comparable to those of corporates and covered bonds. Of those who would return, 63% said that any return would take more than one year, with almost a fifth saying it would take three years or more.

Moreover, the proposed capital charges have been calibrated using a flawed methodology by including historic and largely US-sourced bonds that are no longer issued and would be prohibited anyway for investment by European insurers. The charges, therefore, not only fail to reflect the economic risks of permitted investments, they also fail to distinguish between different types of risk. Furthermore, they have not been consistently applied across all asset classes.

AFME's *Securitisation Investor Survey* also found that:

- 85% of investors, who noted that the proposed Solvency II rules would result in a reallocation of funds, indicated that at least half of these funds would be reallocated away from securitisation.
- Over half (56%) indicated that the proposed capital charges would incentivise them to develop their own internal models to calculate their own capital charges. However, over half of respondents also believed that their regulator would not approve their internal model if the results were materially different from those generated by the standardised approach.

Commenting on the '*Securitisation Investor Survey*' findings, Rick Watson, a managing director at the Association for Financial Markets in Europe said:

"Many European policymakers acknowledge that Europe very much needs a healthy securitisation market to help support its economic recovery, particularly in light of European Central Bank estimates that

European banks will need €1 trillion of funding over the next two years. Given insurers are a key investor group, these findings raise serious concerns.

“The survey shows that Solvency II capital charges will have a direct negative impact on securitisation investment. Once this investment disappears, it could take a long time for it to return.

“Much of this calibration has been based on a misperception of the sector as being high risk and badly performing. This reputation is undeserved since the performance of European securitisation has been very good. For example, since 2007, only 0.07% of European residential mortgage-backed securities have defaulted, and price performance has been better than many senior bank debt, covered bond and European sovereign debt issues.

“We urge policymakers to conduct further analysis using more appropriate calibrations for assessing securitisation capital charges that properly reflect the economic risks of the investments.”

-ENDS-

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1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
2. AFME's Securitisation Investor Survey received responses from 27 leading European investment managers and insurers during March 2012. The full survey results can be found at <http://www.afme.eu/SecuritisationInvestorSurvey>