During the past quarter, the European Commission published an important consultation related to Solvency II Review. We analyzed how spread SCRs for securitized products—in particular, AAA-rated CLOs - might change in the future, and ways that this could affect the current incentives for standard model as well as internal model insurers. A lively "insurance risiko" continues to characterize the sector with activity across Asia and Europe in focus, and a variety of deals covering Nat Cat investments, reinsurance and pension risk transfer. Finally, we look at popular trades in the current market environment and discover potential unexpected pockets of opportunity in Japanese Government Bonds, long-dated Eurozone bonds, Bond Forwards, and intermediate U.S. credit.

Here is DWS' selection of the top themes to consider this quarter:

Upcoming insurance events and key dates

- **IAIS Issue Paper on Life insurance sector**. IAIS is in the process of reviewing the documents received as part of a recent consultation, and will soon publish an Issue Paper on the structural shifts in the Life insurance sector. An indicated primary focus will be on Asset Intensive Reinsurance (**AIR - which was recently discussed at the 2025 DWS Insurance CIO Paris Roundtable**), Alternative investments and financial stability.
- **Consultation on Solvency II Review**: On 20th July, the European Commission published its anticipated call for feedback on draft amendments to the Solvency II Delegated Regulation. This includes **proposed changes to SCR applicable to asset-backed securities and to Long-Term Equity Investments (LTEI) eligibility criteria** (among other things). The deadline to respond to the consultation is 5th September 2025.

- **Supervisory reporting and public disclosure consultation**. The consultation ends on 10th October and streamlines regulatory reporting requirements (focus is on simplification and proportionality).

Insurance market and product trends

Solvency II and securitisation: unlocking European insurance capital for the real economy

The European Commission launched a public consultation (open until 5 September 2025) on proposed amendments to the Solvency II Delegated Acts. The key focus is a recalibration of capital charges for securitisation exposures under the standard formula, aiming to better align capital requirements with actual risk, particularly for senior tranches of both STS and non-STS securitisations.

Definition: Simple, Transparent and Standardised (STS) securitisation

The STS label was introduced by the EU Regulation 2017/2401 to identify traditional securitisations that meet a set of clearly defined criteria with regards to asset types, structures, and reporting standards. STS securitisations, e.g. residential mortgage-backed securities (RMBS), SME loans and auto asset -backed securities (ABS) benefit from reduced capital requirements. In contrast, non-STS securitisations such as collateralised loan obligations (CLO) and commercial mortgage-backed securities (CMBS), due to their complexity and lack of standardisation, are subject to more stringent regulatory requirements, including higher capital charges.

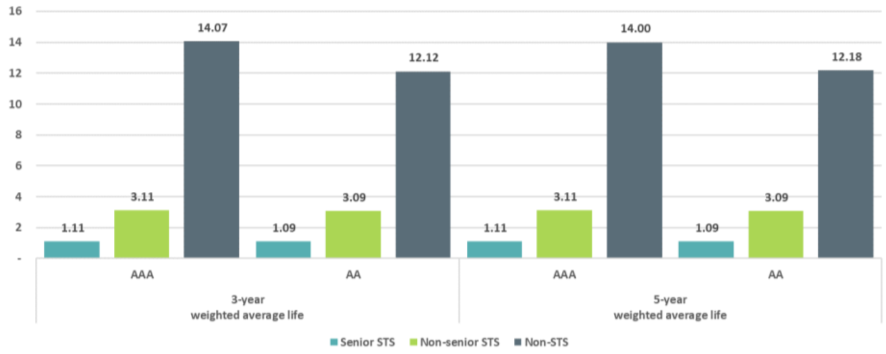
The Solvency Capital Requirement ("SCR") conundrum

European insurers' limited exposure to securitisations is attributed to misaligned Solvency II capital requirements, which distort the risk-return profile of securitised assets relative to traditional fixed-income instruments.

The current standard formula framework imposes capital charges up to 14 times higher on securitised assets, particularly non-STS tranches, than on similarly rated corporate bonds. The disparity with the US insurers' approach by the National Association of Insurance Commissioners (NAIC) is even more pronounced: for example, an illustrative 5-year senior AAA-rated CLO tranche faces a 62.5% Spread SCR charge under Solvency II, versus 0.16% under NAIC, resulting in a considerably lower capital efficiency for EU insurers.

The above lack of risk sensitivity in the standard formula continues to hinder broader securitized asset adoption and capital-efficient portfolio construction.

Spread SCR multiples: Securitisations vs Corporate Bonds



Source: Source: Solvency II article 178, DWS International GmbH

Unintended consequences: risk incentives and market distortion

While standard formula SCRs are overly punitive, internal model capital charges are typically much lower. This is because internal model insurers have the ability, subject to the local regulator's approval, to calibrate securitised assets SCRs based on their own risk assessment, which is typically more aligned with market fundamentals.

As internal model insurers tend to be larger than standard model users, investments towards asset-backed securities (ABS) tend to be biased towards the bigger players. Empirical data from the 2024 Solvency and Financial Condition Reports (SFCR) highlights the impact of capital calibration on investor behaviour. On one hand, a group of major internal model insurers, representing approximately 25% of total assets, accounts for 81% of securitisation investments, with average allocations of 2.6%. On the other hand, a similarly sized group of major standard formula insurers allocates an average of just 0.4%.

Allocation to securitised assets: internal model vs. standard model insurers

Internal Model insurers	Allocation to securitized assets	Standard Model Insurers	Allocation to securitized assets
Allianz	1.1%	CNP	1.1%
AXA	6.1%	Crédit Agricole Assurances	0.0%
Generali	0.3%	Poste Vita	0.0%
Munich Re	2.0%	BNP Paribas Cardif	0.0%
HDI	2.5%	Assurances du Crédit Mutuel	0.0%
SCOR	8.5%	Sogecap	0.0%
AIG	2.5%	Intesa Vita	0.0%
Weighted Average	2.6%	Weighted Average	0.4%

Source: SFCR 2024, DWS International GmbH

This disparity underscores how capital treatment directly shapes portfolio decisions, potentially limiting broader insurer participation in securitisation markets.

The European Commission's proposal: targeted risk-sensitive relief

The European Commission's proposal introduces a significant recalibration of capital charges for securitisation exposures under the Solvency II standard formula. The reform applies across all securitisation types (STS and non-STS, senior and subordinated) and aims to better align capital requirements with actual risk.

Key Enhancements:

- **Senior tranches prioritised**: the proposal introduces a structural distinction between senior and non-senior tranches within the non-STS category, enabling more risk-sensitive treatment.
- **Capital charge reductions**: for senior non-STS AAA tranches with a WAL/duration up to 5 years, capital charges would drop from 62.5% to 13.5%, a 79% reduction. STS senior tranches may also benefit from lower charges, now aligned with covered bonds.

These changes may significantly enhance the attractiveness of senior securitisations, particularly for standard formula insurers, by improving capital-adjusted returns.

Spread SCR: EU Commission's proposal

Spread charges current / proposal (% change vs. current framework) Corporate bond vs. securitisation	3-year spread duration		5-year spread duration	
	AAA	AA	AAA	AA
Corporate Bond	2.7%	3.3%	4.5%	5.5%
Senior STS	3% / 2.1% (-30%)	3.6% / 2.7% (-25%)	5% / 3.5% (-30%)	6% / 4.5% (-25%)
Non-senior STS	8.4% / 6% (-29%)	10.2% / 7.8% (-24%)	14% / 9.8% (-30%)	17% / 12.8% (-25%)
Senior Non-STS	38% / 8.1% (-79%)	40% / 9.9% (-75%)	63% / 13.5% (-79%)	67% / 16.5% (-75%)
Non-senior non-STS	38% / 22.2% (-42%)	40% / 27% (-33%)	63% / 37% (-41%)	67% / 45% (-33%)

Source: European Commission, draft delegated regulation - Ares(2025)5843909, DWS International GmbH

As a result, the proposed framework could significantly improve the capital efficiency of senior securitisation tranches by up to four times for non-STS transactions compared to the current Solvency II framework (see chart below).

Under the proposed framework, CLOs with a "AAA" ratings would receive a Spread SCR similar to that of "BBB" corporate bonds, thus aligning current market valuations (whereby 5-year WAL CLOs trade at 120bps swap spreads, similar to "BBB"-rated corporate issuers).

According to European Commission impact assessment report the EU Commission's proposal could unlock approximately €5.9 billion in capital relief for insurers, potentially enabling greater investment in securitisation without compromising policyholder protection.

Conclusion

The European Commission's consultation presents a critical opportunity to address inefficiencies in the capital treatment of securitisation under Solvency II. By aligning capital charges more closely with actual risk, particularly for senior tranches and to some extent senior non-STS, the proposal could unlock significant investment capacity for insurers while maintaining prudential safeguards.

For standard formula users, the recalibration would enable a shift toward high-quality, yield-generating assets previously underutilized due to regulatory disincentives. Aligning with internal model peers could generate over €150 billion in additional demand across the sector based on 2024 SFCR data and EIOPA statistics.

Beyond portfolio benefits, the reform supports broader EU goals: strengthening capital markets, boosting long-term financing, and reinforcing insurers' role as institutional anchors. Insurers are encouraged to actively participate in the consultation process ahead of the September 5th deadline to help shape a framework that reflects market realities and supports economic resilience.

Insurance M&A activity: "movers and shakers" in the past quarter

M&G agrees to strategic partnership with Dai-ichi Life Holdings

M&G has agreed on a long-term strategic partnership with Dai-ichi Life Holdings that will see Japan's insurer acquire a 15% stake in the UK listed asset manager spanning Life insurance and asset management. Under the agreement, M&G will become Dai-ichi's preferred asset manager in Europe with the partnership expected to generate approx. $6bn in new flows for M&G over the next 5 years of which at least $3bn is anticipated to be in M&G's high-alpha strategies across public and private markets. M&G said the partnership would accelerate its expansion in European private markets and open new potential sources of business flows in Japan and across Asia according to Ignites Europe. "It brings together two highly complementary international businesses with shared growth ambitions that aim to deliver excellent client service and sustainable shareholder returns", said Andrea Rossi, group chief executive officer of M&G via Ignites Europe.

Royal London acquires asset manager Dalmore Capital

Royal London has agreed to acquire Dalmore Capital, a UK-based infrastructure asset manager, subject to regulatory approval in a move to broaden its private assets capabilities and provide customers access to a wider range of investment options to support their retirement goals,according to Pensions Age. As part of the acquisition, Royal London will commit up to £500m to future Dalmore funds. Following completion, ownership of Dalmore Capital and its asset servicing arm, Resolis, will transfer to Royal London AM according to Pensions Age.

BlackRock partnerswith Abu Dhabi AI-driven reinsurance platform

BlackRock is to act as strategic partner for an Abu Dhabi-based AI-driven reinsurance platform to be launched by local investment company IHC providing insurance asset management, advisory and its Aladdin technology capabilities for the yet-to-be-named platform, according to IgnitesAsia. The expected initial equity commitments is to exceed US$1bn, which will be increased by "additional hybrid and debt financing". In addition, Abu Dhabi-headquartered asset manager Lunate Capital would also be a partner of the new reinsurance platform, contributing its public and private markets expertise, and "global, multi-asset experience".

GAM agrees on Swiss Re partnership

GAM has agreed on a partnership with Swiss Re in a move to make catastrophe bonds and insurance-linked securities "more accessible" to its clients. The reinsurer will become the co-investment manager of its $3bn ILS fund range, including the €2.8bn Ireland-domiciled GAM Star Cat. Bond UCITS fund, from May 7th. "Swiss Re's scale and end-to-end expertise in the ILS market, supported by their specialist underwriting know-how delivers unique risk management capabilities and enhanced investment expertise for investors," said GAM, according to Ignites Europe

Aberdeen takes over £3bn pension scheme policies from Phoenix

Aberdeen has taken on £3bn in pension scheme policies from insurance consolidator Phoenix Group. The transfer covers 51 funds aimed at investors in defined contribution, defined benefit and local authority pension schemes, according to Pensions Expert via Ignites Europe. The funds' investment strategies will remain the same, but names of the products will be changed.

Market Pulse: investment strategies and trading ideas

Volatility characterized the second quarter of the year. The below three "trading ideas" try to capitalize on current levels, while hedging at least a part of the volatility stemming from FX and interest-rate risks:

1) A Solvency capital-optimized trade in long European and Japanese long-dated govt bonds,
2) A potential yield-maximizing trade in short- and intermediate USD Corporate bonds (FX term-hedged); and
3) A "best-of-both-worlds" trade involving government bond forward purchases and corporate bonds.

1) Euro-area and Japanese government bonds:

Euro-area government bonds with maturities over 10-years offer 160bps more yield than US Treasuries hedged in Euros (as of the end of July). While, from a technical standpoint, the financing needs stemming from the German and EU fiscal stimuli may put some pressure on long-end yields, we believe incremental demand from non-EU investors re-allocating away from US assets could offset the incremental supply needs.

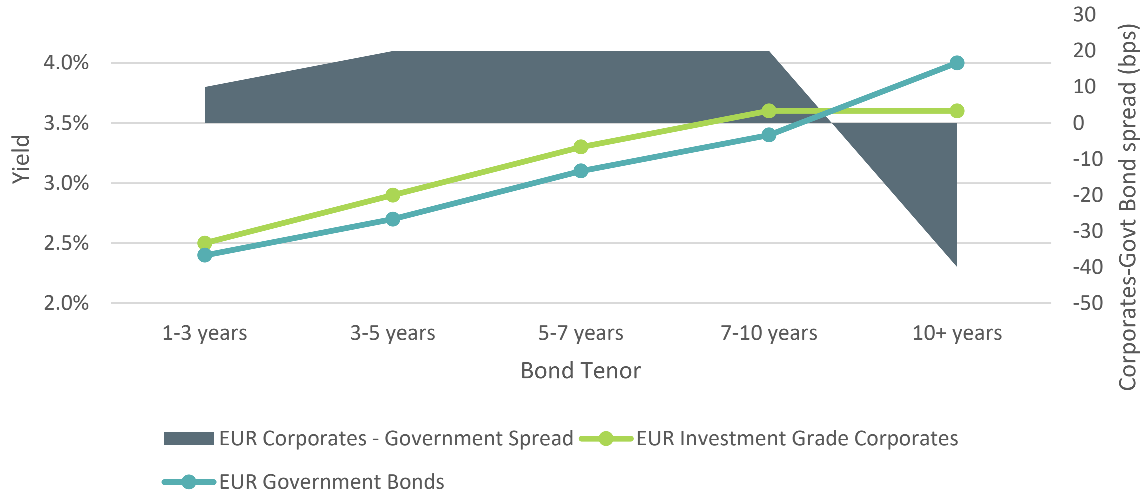
The steepness of the European government bond curve (both vs. US Treasuries and vs. European investment grade corporate bonds) also potentially offers an additional term premium that could act as a cushion in case of new volatility episodes.

Yield pick-up: EUR-denominated bonds vs USD (EUR-hedged)*

	1-3 years	3-5 years	5-7 years	7-10 years	10+ years
Government Bonds	0.9%	1.2%	1.5%	1.5%	1.6%
Investment Grade Corps	0.5%	0.7%	0.8%	0.8%	0.2%

Sources: DWS, Bloomberg, as of July 2025. *Hedging costs estimated using 3-month FX forwards

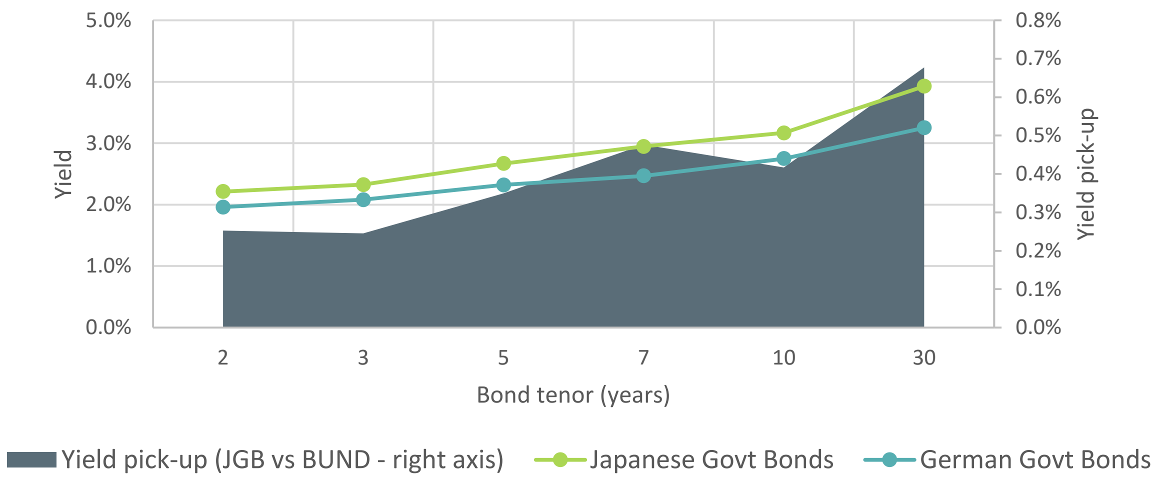
EUR yield curve: Govt vs Investment Grade Corporate bonds



Sources: DWS, Bloomberg, as of July 2025

Japanese government bonds hedged in Euros may also offer an attractive pick-up vs German bunds across the curve, and could be an interesting risk diversifier in insurers typically EUR-only balance sheets.

Yield pick-up: Japanese ("JGB") vs German government bonds ("Bund")*



Sources: DWS, Bloomberg, as of July 2025. *Hedging costs estimated using 3-month FX forwards

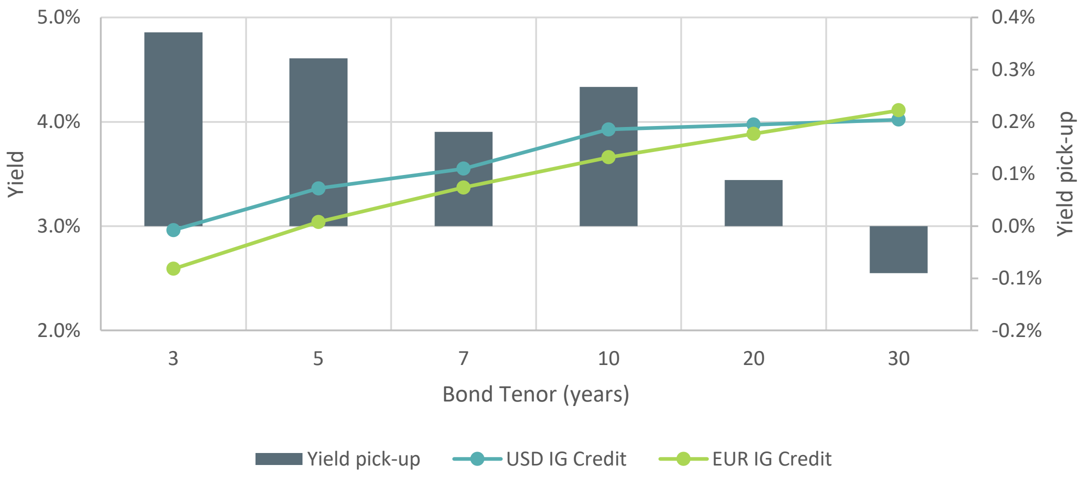
Finally, under Solvency II standard formula, government bonds attract a 0% capital charge, thus offering a capital-efficient allocation for life insurers and those with long-dated (e.g. reinsurance) liabilities.

2) Overweight 1-10 year USD corporates (term-hedged to EUR) vs EUR corporates

While we think Euro government bonds offer the most capital-efficient trade idea this quarter, USD corporates can play an important role if the objective is yield maximization, and if insurer's needs are focused on the short or intermediate part of the yield curve.

Using term-hedges, for example through SPIRE structures, may be beneficial in this case, as cross-currency swaps may remove the noise around volatility of Federal Reserve vs ECB policy moves, and help crystallize the yield pick-up available in markets today.

Yield pick-up: EUR-denominated bonds vs USD (EUR-hedged)*



Sources: DWS, Bloomberg, as of July 2025. *Hedging costs estimated using cross-currency swaps to term

3) Government bonds forward purchases and corporate bonds spot trade

A potential "best-of-both worlds" trade idea, that optimizes for Solvency II capital consumption, while maximizing yield, is through bond forward purchases of government bonds, coupled with "spot" purchases of corporate bonds.

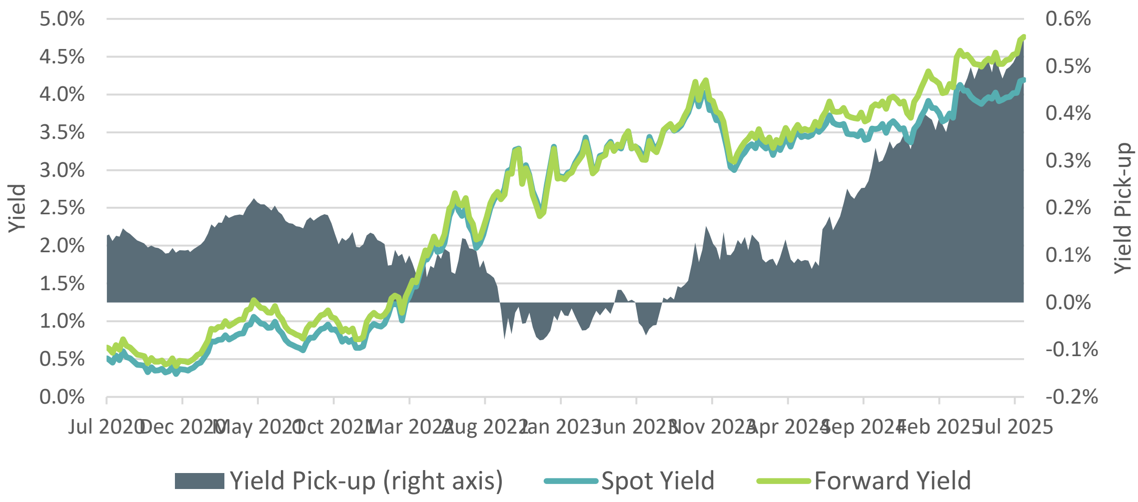
Bond forward purchases are agreements to buy bonds at a predetermined price on a future date. This mechanism allows insurers to lock in a future (possibly higher) yield, a feature that we think is particularly attractive in today's market environment, characterized by steeper curves compared to the past.

In the below example, we looked at 25/30-year government bonds with A/AA/AAA ratings. These bonds featured 5-year forward purchase yield differentials that currently sit at the highest levels since 2020, thus providing an attractive entry point.

In the trade, we are buying 5-year (A-rated) corporate bonds "spot" to ensure we have no duration exposure gap in the short-end of the curve, and to extract additional returns. From a yield maximization standpoint, the trade allows us to potentially extract extra yield vs long-dated government "spot purchases". The pick-up can be attributed to term premia, curve steepness as well as credit risk premia (counterparty risk is beyond the scope of this write-up but would also need to be taken into account).

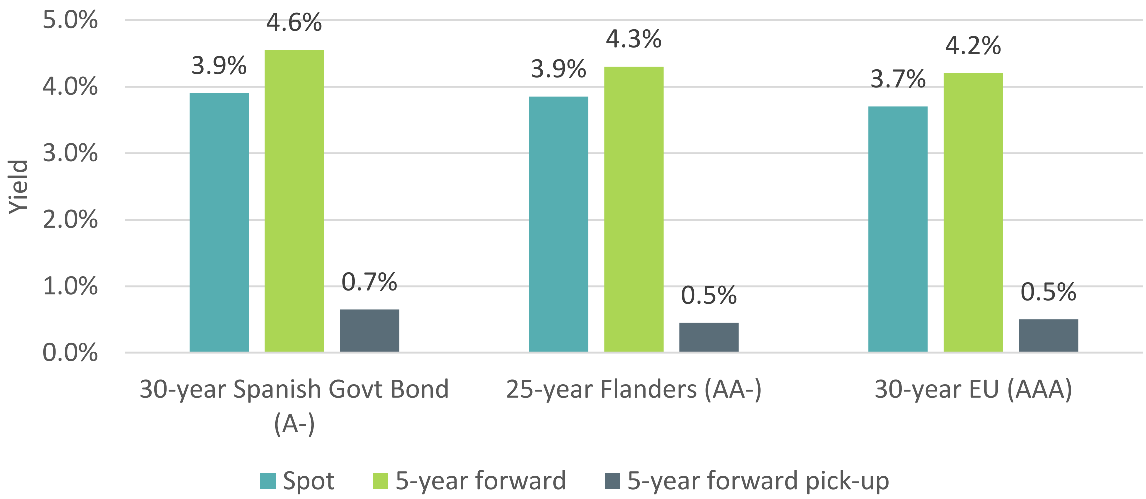
From a capital efficiency standpoint, 5-year "A" corporate bonds consume 7% in Spread Solvency capital for the first five years, while forward purchases of government bonds do not attract any SCR from year 5 onward. Over the term of the trade, and taking the Spanish government bond as an example, an extra 0.46% is generated each year by spending an incremental 0.2% Spread SCR annually.

Illustrative example: 30-year French Government Bond



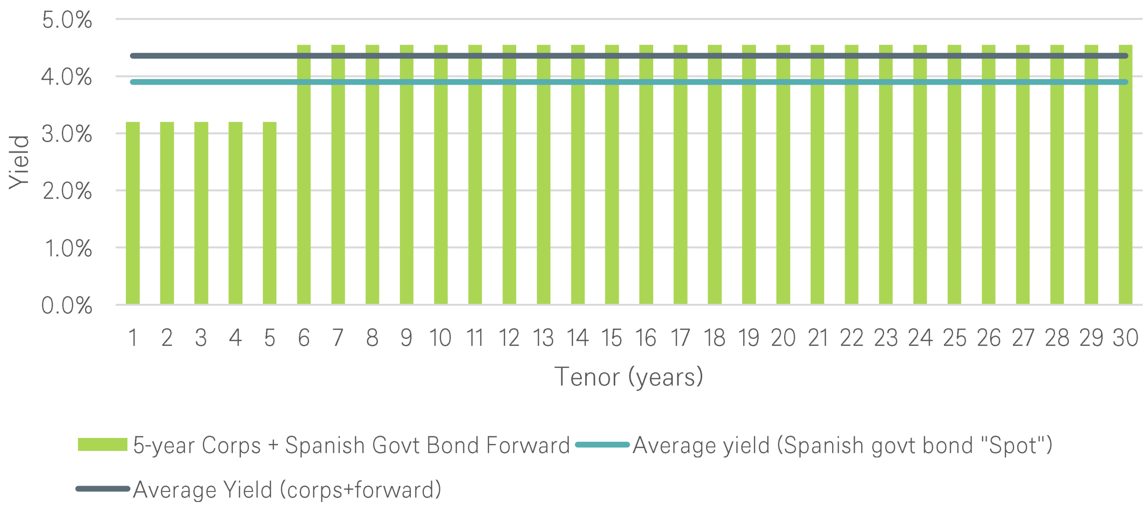
Sources: DWS and Bloomberg data, as of 27th July 2025

Selected Euro government Bonds: Spot- vs Forward-purchase yields



Sources: DWS, Bloomberg data, as of July 2025.

Illustrative example: 5-year Corporate Bonds "Spot" and Spanish Government Bond forwards



Sources: DWS, Bloomberg, as of 27th July 2025

If you are interested in any of the topics and would like to learn more, please reach out to me or your DWS relationship management partner.

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Appendix: DWS Market Outlook as of June 30, 2025

Fixed Income

			Tactical (1-3M)		Jun '26	
Fixed Income		Current level	Current	1M Change*	Strategic	Forecast
Rates	U.S. Treasuries (2-year)	3.72	🟡	-	🟢	3.75%
	U.S. Treasuries (10-year)	4.23	🟡	-	🟢	4.50%
	U.S. Treasuries (30-year)	4.77	🟡	-	🟢	4.70%
	German Bunds (2-year)	1.86	🟡	-	🟢	1.60%
	German Bunds (10-year)	2.61	🟡	-	🟢	2.50%
	German Bunds (30-year)	3.10	🟡	-	🟢	3.00%
	UK Gilts (10-year)	4.49	🟢	-	🟢	4.20%
	Japanese sov. (2-year)	0.75	🔴	↓	🟡	1.00%
	Japanese sov. (10-year)	1.43	🟡	-	🔴	1.80%
Spreads (bps)[1]	Italy (10-year)	87	🟡	-	🟢	110
	U.S. investment grade	83	🟡	-	🟢	90
	U.S. high yield	290	🟡	-	🟢	350
	Euro investment grade	91	🟢	-	🟢	90
	Euro high yield	318	🟡	-	🟢	360
	Asia credit	242	🟡	-	🟢	150
	EM sovereign	322	🟡	↑	🟢	360
Securitized (bps)	Euro Covered bonds	47	🟡	-	🟢	50
	U.S. MBS	150	🟡	↓	🟢	130
Currencies		Current level	Tactical	Tactical	Strategic	Forecast
Currencies	EUR vs. USD	1.18	🟢	↑	🔴	1.18
	USD vs. JPY	144	🔴	-	🔴	130
	EUR vs. JPY	170	🟡	-	🔴	153
	EUR vs. GBP	0.86	🟡	-	🔴	0.84
	GBP vs. USD	1.37	🟢	↑	🟡	1.40
	USD vs. CNY	7.16	🟡	-	🟢	7.30

Equities

			Tactical (1-3M)		Jun '26	
Equities		Current level	Current	1M Change*	Strategic	Forecast
Regions	U.S. | S&P 500	6205	🟡	-	🟡	6,100
	Europe | Stoxx 600	541	🟢	-	🟢	570
	EUZ | Eurostoxx 50	5303	🟡	-	🟢	5,600
	Germany | DAX 40	23910	🟡	-	🟢	25,600
	Switzerland | SMI	11921	🟡	-	🟢	12,500
	U.K. | FTSE 100	8761	🟡	-	🟢	8,800
	EM | MSCI EM	1223	🟡	-	🟡	1,220
	Asia ex Japan	797	🟡	-	🟡	790
	Japan | MSCI	1743	🟡	-	🟡	1,720
Sectors	Consumer staples		🟡	-	-	-
	Healthcare		🟢	-	-	-
	Comm. Serivces		🟡	-	-	-
	Utilities		🟡	-	-	-
	Consumer Discr.		🟡	-	-	-
	Energy		🟡	-	-	-
	Financials		🟡	-	-	-
	Industrials		🟡	-	-	-
	IT		🟡	-	-	-
	Materials		🟡	-	-	-
Style[1]	U.S. small caps		🟡	-	-	-
	European small caps		🟢	-	-	-

Alternatives

Alternatives[1]	Current Level	Tactical (1-3M) Current	Tactical (1-3M) 1M Change*	Jun '26 Strategic	Jun '26 Forecast
Oil (Brent)	67	🔴	-	🔴	63
Gold	3,303	🟡	-	🟢	3,700
Carbon	68	-	-	🟢	75
Commodities		🟡	-	🟢	-
Infrastructure (listed)		🟢	-	🟢	-
Infrastructure (non-listed)		-	-	🟢	-
Real estate (listed)		🟢	-	🟢	-
Real estate (non-listed) APAC		-	-	🟡	-
Real estate (non-listed) Europe		-	-	🟢	-
Real estate (non-listed) U.S.		-	-	🟢	-

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[1] Spread over German Bunds. [2] Relative to the MSCI AC World Index (only for the tactical signals),[3] S&P 500, [4] Stoxx Europe 600, [5] Euro Stoxx 50, [6] Dax, [7] Swiss Market Index, [8] FTSE 100, [9] MSCI Emerging Markets Index, [10] MSCI AC Asia ex Japan Index, [11] MSCI Japan Index, [12] MSCI AC World Consumer Staples Index, [13] MSCI AC World Health Care Index, [14] MSCI AC World Communication Services Index, [15] MSCI AC World Utilities Index, [16] MSCI AC World Consumer Discretionary Index, [17] MSCI AC World Energy Index, [18] MSCI AC World Financials Index, [19] MSCI AC World Industrials Index, [20] MSCI AC World Information Technology Index, [21] MSCI AC World Materials Index, [22] Russell 2000 Index relative to the S&P 500, [23] Stoxx Europe Small 200 relative to the Stoxx Europe 600, [24] Relative to the Bloomberg Commodity Index, [25] Long-term investments.

Bond investments are subject to interest rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest.

Bond and loan investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Floating rate loans tend to be rated below-investment grade and may be more vulnerable to economic or business changes than issuers with investment-grade credit. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest.

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