

KPMG

Solvency II 2020 review

Market Risk

October 2026

Market Risk: What Is Changing for Insurers?

The Solvency II 2020 review takes effect on 30 January 2027. This post continues our series by exploring how the revised standard formula changes capital requirements for investments and counterparty exposures. The aim is a more risk-sensitive treatment and fewer barriers to long-term investments, not a uniform reduction in SCR.

Introduction

Solvency II has been the EU prudential framework since 2016. The 2020 Review updates it to support long-term investment, improve resilience and risk sensitivity, strengthen cross-border supervision and apply proportionality more consistently. Within the SCR market risk module, these revisions recalibrate stress parameters, broaden eligibility criteria for selected assets and introduce stricter requirements for recognizing protection.

Why the framework is changing

Some calibrations and eligibility rules can discourage long-term investment or no longer distinguish consistently between risks. Existing treatment may also understate stressed losses on well-secured loans or overstate protection from collateral and guarantees. The review therefore recalibrates selected stresses and diversification, broadens access to preferential treatment for certain asset classes, introduces minimum LGD floors for mortgages and strengthens the conditions for recognizing effective risk transfer.

Scope of the changes

Calibration
Interest-rate and equity shocks, spread stresses and interest-spread correlation.

Investment treatment
LTE eligibility, publicly supported investments and fund look-through.

Counterparty default
Scope, LGD floors, collateral, netting and CCP clearing.

Area	Main change	Description	Assessed impact
Interest Rate SCR*	Revised rate shocks	Multiplicative/additive shocks, floors and ±15bp UFR shift	Often higher SCR; depends on ALM and hedges
Counterparty default risk (CPD)	Scope, LGD and collateral	Reclassification, LGD floors, collateral/netting and CCP clearing	Mixed: mortgages/problem loans ↑; qualifying repos/CCPs ↓
Equity LTE**	Wider LTE eligibility	22% stress retained; wider eligibility, subject to evidence of a five-year holding capacity	Potential relief if eligible; added evidence and governance
Equity Symmetric Adjustment	±13pp range	Range widens from ±10pp to ±13pp	In strong market moves: more relief after falls; higher charge after rises
Diversification	25% correlation	Correlation interest shock down – spread: from 50% to 25%; up-shock correlation stays 0%	Potentially lower aggregated market SCR in down shock scenario
Securitisations	Lower spread stress	Lower STS and non-STS spread stresses	Potentially lower spread SCR; portfolio-dependent
Look-through	Clearer fund rules	Fund and CIU look-through clarified and simplified	Greater predictability; capital effect depends on exposures
Public-backed securities	Favourable treatment	Qualifying guarantees, subsidies and public co-investment	Potentially lower capital requirements if conditions are met

* Read more in our post about the Interest Rate SCR here.
** Read more in our post about the Equity LTE here.

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Mortgages, Risk Mitigation & Other Changes

1. Mortgages Treatment under CPD (Article 192)

Well-secured mortgages can still attract a capital charge

A mortgage backed by sufficient collateral can currently have an assumed loss-given-default (LGD) of zero. The review introduces a minimum LGD assumption of 5%, so even portfolios with low loan-to-value ratios can face higher capital requirements.

What does that mean in practice?

Assume a loan of €100 with no guarantee and enough collateral to bring the current loss assumption to zero. Under the revised rules, the assumed loss becomes €5. Applying the 15% capital factor gives a charge of €0.75 before diversification.

The key distinction: a 5% loss assumption does not mean a 5% capital charge.

Guarantees can affect the calculation only when the Solvency II recognition conditions are met. NHG is currently not expected to qualify as a guarantee under Solvency II, and the review is not expected to change that assessment. Insurers should therefore not assume capital relief from NHG.

2. What else changes and what it means for insurers?

Art.	Exposure / rule	Revised	Financial / operational effect
107a	Risk-mitigating effect	Pro rata by exposure at default	Simpler allocation
189	Repos / securities lending	Type 1	Potential collateral / diversification relief
189	CCP default funds	Explicit Type 1 scope	More risk-sensitive treatment
189	Defaulted / forborne loans	Type 2	Basis for higher capital charges
191	**Mortgages**	**Additional banking-definition**	**Broader eligibility**
192	Collateralised reinsurers	Adjusted collateral haircut F‴	Effect depends on collateral
192	Repos / securities lending	Exposure less collateral, with netting	Potentially lower SCR
192	**Mortgages**	**5% minimum LGD**	**Higher charge for affected loans**
192	Defaulted / forborne loans	36% minimum LGD	Higher loss base
192	CCP default funds	18% prefunded, 0% unfunded	Conditional calibration
192a	Indirect CCP clearing	Stronger segregation / portability	Check clearing safeguards
192b	Direct clearing member	Route based on indirect clearing	Potentially lower SCR
197	Collateral factors	Additional factor F‴	Update calculations
199	Qualifying CCP exposures	0.002% PD, including eligible default funds	Conditional capital relief
202	Type 2 problem loans	100% of LGD for defaulted / forborne	Higher capital charge

3. Risk mitigation (Article 210)

Six requirements for a demonstrable risk transfer

1. No material basis risk
2. Sufficiently comparable exposures
3. Consistent co-movement across a broad range of stress scenarios
4. Effective contractual risk transfer in every relevant jurisdiction
5. Capital relief proportionate to the risk transferred
6. SCR includes risks created by the transfer itself.

What this means in practice?

Insurers need to show that their protection works under stress and is legally enforceable. The capital calculation must reflect how much risk the arrangement actually transfers, including any risks it creates. These requirements can affect both counterparty default SCR and the underlying BSCR.

For reinsurance, currency mismatch generally creates material basis risk, unless the currencies are closely linked or the contract fixes the exchange rate.



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Consequences for Insurers

The review changes both capital requirements and the documentation needed to support them. The net effect depends on the insurer's assets, liabilities and recognised protection.

Potential benefits

- **Improved investment capital efficiency.** Broader LTE eligibility and lower stresses for selected investments may reduce capital requirements where the relevant conditions are met.
- **Greater regulatory diversification benefit.** The lower interest–spread correlation may reduce combined market SCR in the downward shock scenario.
- **Relief for qualifying secured exposures.** Revised collateral and clearing treatment may reduce capital requirements for eligible arrangements.
- **Clearer fund treatment.** Clarified look-through rules provide a clearer basis for assessing fund exposures under the standard formula.

Main risks and considerations

- **Higher capital charges on affected loans.** Minimum loss assumptions can increase capital requirements for mortgages and problem loans.
- **Capital relief remains conditional.** Insurers must meet the applicable eligibility requirements and support recognition of risk mitigation with evidence of effective protection.
- **No guaranteed overall reduction.** The net SCR effect depends on the portfolio, liabilities and hedges. Increases in some areas may offset relief elsewhere.
- **Implementation effort and ongoing investment risk.** Insurers need to update relevant calculations, data and documentation. Credit and liquidity risks remain important even where regulatory stresses fall.

ALM considerations

- **Review loan portfolio composition.** Quantify the capital effect by exposure type and identify categories that become relatively more or less attractive, while considering underlying risks.
- **Reassess risk mitigation.** Confirm that collateral, guarantees, reinsurance netting and clearing provide effective, legally enforceable protection. Where they do not, consider strengthening or introducing qualifying measures.

Financial effects



Potential capital relief on eligible investments



Higher capital charges on affected loans



Stronger risk mitigation and portfolio steering



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Posts

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If you want to further discuss these topics or have further inquiries about the Solvency II 2020 review, please reach out.



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