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Are European insurers  
leaving capital efficiency  
on the table?

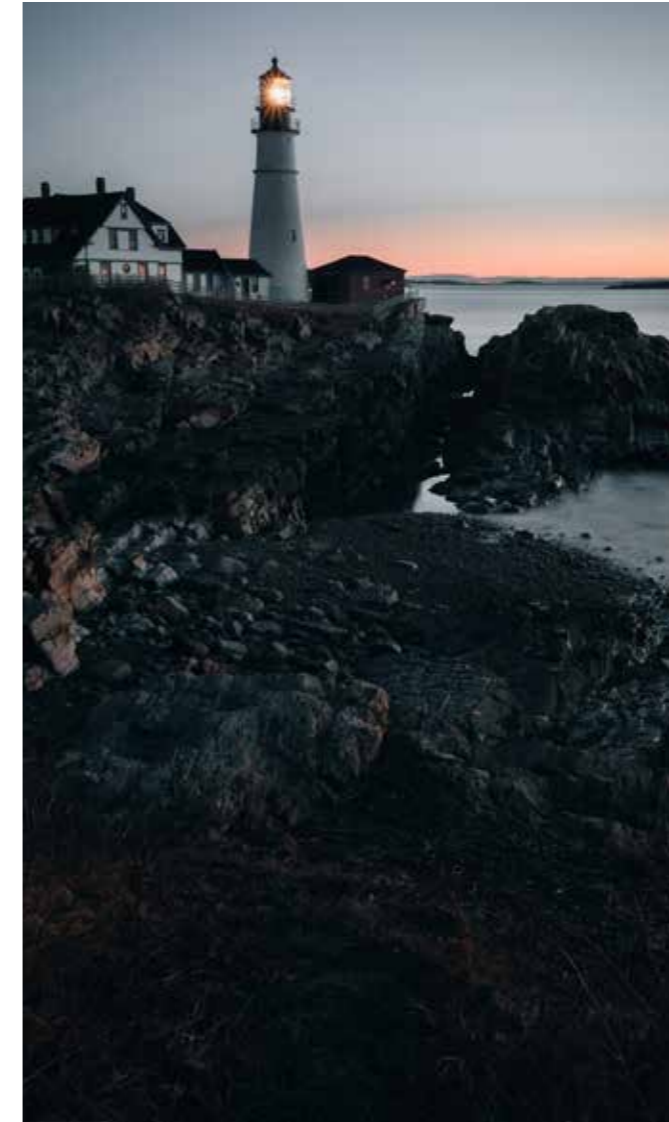
**HOWDEN**

# Two cars can drive the same journey and use very different amounts of fuel.



One may be carefully engineered for efficiency, optimising how fuel is used. The other may have a less efficient engine and burn more fuel to reach the same destination.

Both cars arrive at the same place, but one has used far more fuel to get there. Insurers may be investing in the same underlying asset class, but the amount of capital those investments attract can differ significantly.

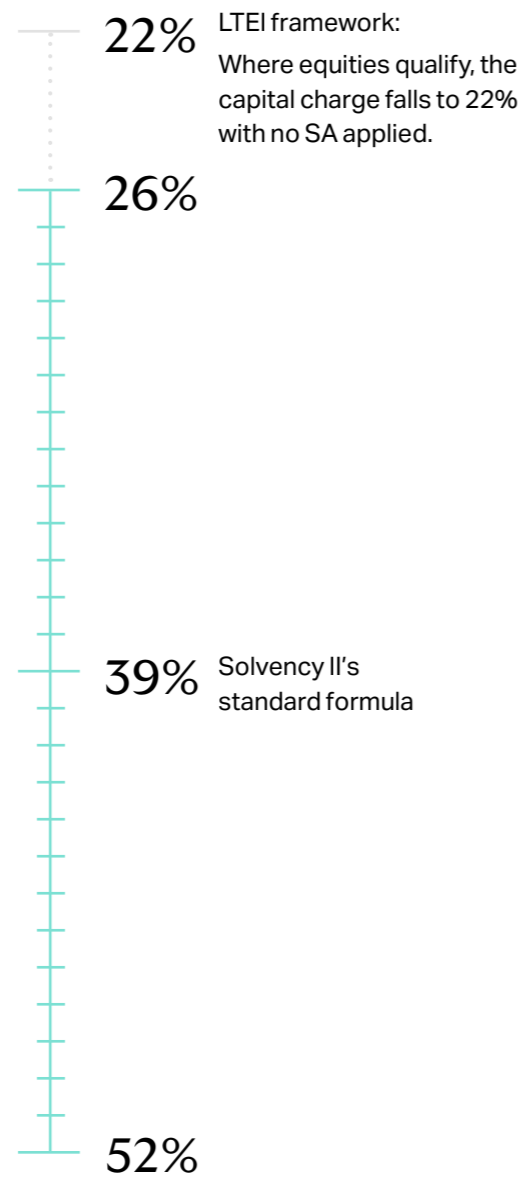


Portfolio construction is one reason why. And one of the most underused structural tools available to address it – the Long-Term Equity Investment (LTEI) framework – is about to become significantly more accessible.

In our experience of advising European insurers on investment strategy and capital efficiency, LTEI is an area where meaningful capital efficiency gains are available. But capturing those gains requires balance sheet analysis, governance and early engagement with supervisors; areas where we think the conversation has not gone nearly far enough.

# The fuel efficiency problem with equity capital

Effective capital charge on standard equity exposures range



Under Solvency II's standard formula, most listed equities attract a Type 1 capital charge of 39%. On top of that, the Symmetric Adjustment (SA), a counter-cyclical mechanism calibrated to EIOPA's equity index, causes that charge to fluctuate within a corridor of  $\pm 13\%$ . The effective capital charge on standard equity exposures can therefore range from around 26% to 52% depending on recent market performance.



For an insurer with a material equity allocation, this can represent one of the largest single contributors to market risk SCR and a significant drag on solvency coverage. The volatility in capital charge can also create noise for insurers managing solvency ratios within defined target ranges.

The LTEI framework provides a materially different picture. Where equities qualify, the capital charge falls to 22% with no SA applied. For an insurer actively managing its solvency ratio (particularly one that is sensitive to equities), this offers a direct and significant capital saving, alongside greater predictability of capital requirements.

## New rules, broader eligibility:



what the 2024 Solvency II  
Review means for LTEI

Despite being available since 2019, LTEI has been used by very few European insurers. The reasons are well documented: the original framework required equities to be held for ten years, to be managed separately from other assets, and to be demonstrably linked to specific identified liabilities.

There was also a structural inconsistency with the old rules. Equities most naturally sit as surplus assets on an insurer's balance sheet, yet it was precisely in surplus assets where LTEI treatment was hardest to claim, because there were no specific liabilities to point to. The framework offered a capital benefit for long-term equity investment, but was designed in a way that made it difficult to apply where equities were largely held.

The result was that most insurers concluded LTEI was too complex or too uncertain.

That is now changing.

# New rules, broader eligibility: what the 2024 Solvency II Review means for LTEI

The 2024 Solvency II Review has materially simplified the LTEI framework. The amending Directive was published in January 2025, with the revised rules applying across member states from 30 January 2027.

## The key changes are:



The minimum holding horizon is reduced from ten years to five years, supported by a documented investment policy



The requirement to link LTEI assets to specific identifiable liabilities has been removed, meaning equities held as surplus assets can also qualify



For equities held within European Long-Term Investment Funds ("ELTIFs") and certain Alternative Investment Funds ("AIFs") with a lower risk profile, eligibility conditions can now be assessed at fund level, significantly reducing operational complexity

While many people focus on the headline lower capital charge for LTEI, the removal of the liability-matching requirement deserves most attention in our view.

Under the new rules, an insurer with a documented long-term investment approach and a stable capital position can apply LTEI treatment to surplus equity assets. The barrier that blocked adoption for most insurers has been lifted.



# What we found in practice

We recently reviewed the investment strategy and market risk SCR for a European insurer as part of a broader capital efficiency exercise. LTEI emerged as one of the most immediately actionable opportunities.

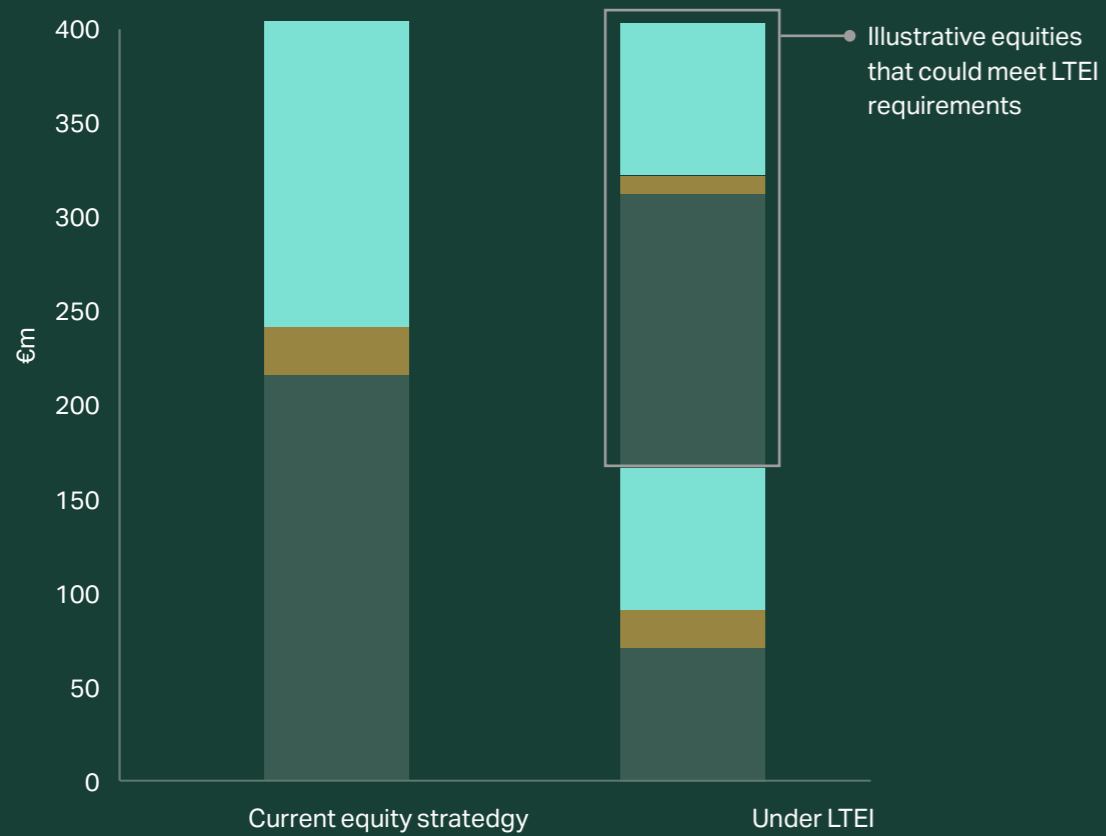


The insurer held a material equity allocation, around 8% of its non-linked asset portfolio, with a higher weighting in life business than non-life. In absolute terms, this amounted to approximately €400m of equity exposure, generating an equity SCR of around €168m under standard Type 1 treatment.

Reviewing the portfolio against LTEI eligibility criteria, we identified that a meaningful portion could qualify:

- 1 The long duration of the non-linked life liabilities (11 to 12 years) was particularly well suited to demonstrating a long-term investment horizon
- 2 Parts of the non-life book also appeared capable of supporting LTEI eligibility for a proportion of equity assets
- 3 Critically, under the new rules, the removal of the liability-matching requirement meant that equities held as surplus assets could also be brought within scope. This was an important factor given where equities most naturally sit on this insurer's balance sheet

On an illustrative basis, we estimated that around €230m of the c.€400m equity portfolio could qualify for LTEI treatment, with the remaining c.€150m retained under standard Type 1 treatment. This would reduce equity SCR by around €45m and Group SCR by around €30m after diversification.



■ Surplus assets  
■ Non-life assets  
■ Non-linked life assets

	Current equity strategy	Under LTEI
SII Type 1 equity charge	39%	22%
Symmetric Adjustment (at 31 Dec 2024)	+3%	-
Assumed Equity SCR	€168m	€122m



A €30m reduction in Group SCR is not a rounding error. For an insurer managing solvency coverage within a target range, the capital saved could be deployed elsewhere, whether that is through a shareholder distribution, an acquisition or further internal investment.

Beyond the immediate saving, LTEI eligibility could also support a higher strategic equity allocation over time and enable a more capital-efficient approach to investing in unlisted equities and private markets, where LTEI treatment may also be available through eligible fund structures such as ELTIFs.

# The part most people don't cover:

making it actually work

Others have written helpfully about the investment case for LTEI. What tends to receive less attention is the balance sheet and governance work required to get there, and this, in our experience, is where the real complexity lies.

The investment policy | LTEI eligibility requires a documented investment policy that demonstrates the intent and ability to hold equities for at least five years, including under stress. This requires the policy to address stressed conditions explicitly, to define the scope of the LTEI portfolio clearly, and to be integrated with the insurer's ORSA and capital planning. Getting this right requires both investment and actuarial input.

The non-life question | LTEI is often associated with life business, where long liability durations make the five-year holding case relatively straightforward. For non-life business, the framework requires a liquidity buffer test: the insurer must demonstrate that liquid assets are sufficient to cover non-life liabilities under the prescribed assessment. While this test requires careful modelling, it is positive that LTEI don't just have to back life liabilities.

The compliance boundary | Industry bodies have raised concerns about what happens if an insurer breaches LTEI conditions. Under the current draft rules, non-compliance triggers a reversion to Type 1 or Type 2 charges. Insurers need to build monitoring around the LTEI portfolio to manage this risk, and to ensure the investment policy is embedded within governance frameworks.

# Don't wait for 2027

The revised rules formally apply from 30 January 2027. But there are strong reasons not to wait.

The investment policy, governance framework and ORSA integration required to support LTEI take time to develop properly. Supervisors across Europe are likely to be open to pre-application engagement now. Indeed, engaging early is consistent with good regulatory practice and allows firms to test their approach and resolve any questions about eligibility before implementation.



**There is also a strategic element. LTEI eligibility may support a higher equity allocation, though the investment case for doing so needs to be developed alongside the capital case.**

# Is LTEI right for you?

Howden Re's Capital & Operational Solutions team takes a holistic approach to helping European insurers strengthen their balance sheets, spanning reinsurance structuring, solvency market risk advisory, investment and ALM frameworks, and legacy portfolio management.



Barnett Waddingham, part of the Howden Group, is a leading professional services consultancy with over 36 years of experience and a dedicated insurance practice serving more than 70 insurers across actuarial, regulatory, capital modelling and investment advisory.

Together, the two teams offer European insurers an integrated capability, from strategic ALM and investment policy through to governance frameworks, supervisor engagement and implementation support, helping insurers optimise capital and improve balance sheet efficiency.



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