Reviving securitisation in Europe for CMU

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More than a decade ago, the Global Financial Crisis pushed us to rethink securitisation. Banks landed in trouble, investors lost money, and a severe economic downturn ensued. Governments had to step in to help; securitisation stood accused of both masking and amplifying risks that caused the crisis.

Securitisation is the financial practice of pooling various types of debt, such as residential mortgages, car loans or credit card debt, and selling their related cash flows to third party investors as securities.

Due to expansion of poorer quality subprime mortgages and complex and opaque structures, especially in the US, securitisation received significant criticism. Yet over time, market participants have begun to better appreciate the benefits as well as consider the risks of securitised products. In the US, the biggest market for securitisation, this led to a revival with the market size now more than triple that of 12 years ago. In Europe, by contrast, the stigma persists and securitisations are a small fraction of what they were a decade ago.

In this blog, we explain how securitisation can be a key element in a successful European Capital Markets Union (CMU) and why, as we exit the pandemic, it could provide a springboard to economic prosperity.

When properly structured and monitored, securitisation is a powerful technique that can support the development of capital markets. In its latest action plan on CMU last November, the European Commission clearly identified the rise of securitisation as a key measure to build European capital markets. The authors of this blog presented it as one of the 5 “game changers for CMU” in a blog in 2020.

Securitisation shrank in the EU; in the US it expanded

In 2008, the size of the European securitisation market, including the United Kingdom, was 75% that of the US. In 2020, it was just 6%. This is a quantum shift between both regions, despite similar private non-financial lending activities in both economies. When looking only at purely private transactions,[1] volumes were still three to six times higher in the US than in Europe, including the UK, over the last eight years.[2]