



THE 2027 LONG-END BID

Solvency II is finished being written — what it actually forces



bzhmacro.com

DATE 2026-08-11 AUTHOR BZHMACRO STATUS RESEARCH NOTE

EIOPA delivered the last of its Solvency II Review mandate on 15 July 2026. Every parameter that matters is now published rather than expected, and the framework applies on 30 January 2027. This note sets out what the regime forces euro-area life insurers to do, how large that is, and — the part most of the sell-side still has wrong — what shape it takes.

€108bn 30y-equivalent receiving, 2027–2032, at sector defaults	81% Of it lands in 2027. This is a step, not a ramp	29% Market weight at 50y in the end state. Not 100%	3 mth Supervisors can now suspend life redemptions
---	--	--	---

01

The state of play

Three instruments carry the substance, and only one of them is from July.

Directive (EU) 2025/2 set the architecture in January 2025. **Delegated Regulation (EU) 2026/269**, adopted 29 October 2025 and published in the Official Journal on 18 February 2026, set the numbers: cost-of-capital 4.75%, the risk-margin decay factor, the matching-adjustment diversification change, and the credit spread sensitivity ratio. **EIOPA's RFR Technical Documentation** (BoS-26/198, 26 May 2026) set the curve: the convergence parameter, the volatility-adjustment formulas, the macro component.

July's eight publications are, with one exception, alignment work — guidelines and technical standards catching up with decisions already taken. The exception is genuinely new and nobody has priced it. We come to it in section 06.

Where the parameters actually live matters. A note that attributes the risk-margin calibration to EIOPA's July package is looking in the wrong document — the string "4.75" appears in neither July text. The Commission set it. EIOPA's July RTS is a one-line consequential fix to a cross-reference.

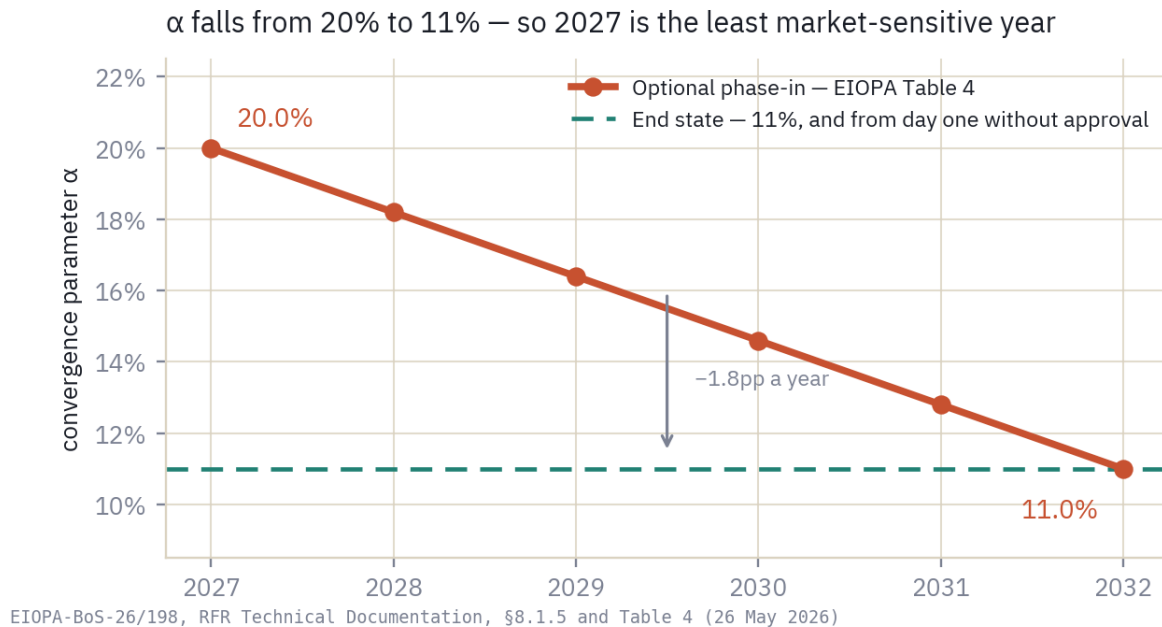
02

The curve change, and why it is smaller than advertised

Only one part of Solvency II reshapes the discount curve: the rule for extrapolating past the last liquid point. For EUR that point stays at 20 years. Beyond it, the fast pull to a fixed 3.3% Ultimate

Forward Rate is replaced by a market-derived Last Liquid Forward Rate converging more slowly — governed by a single parameter, α .

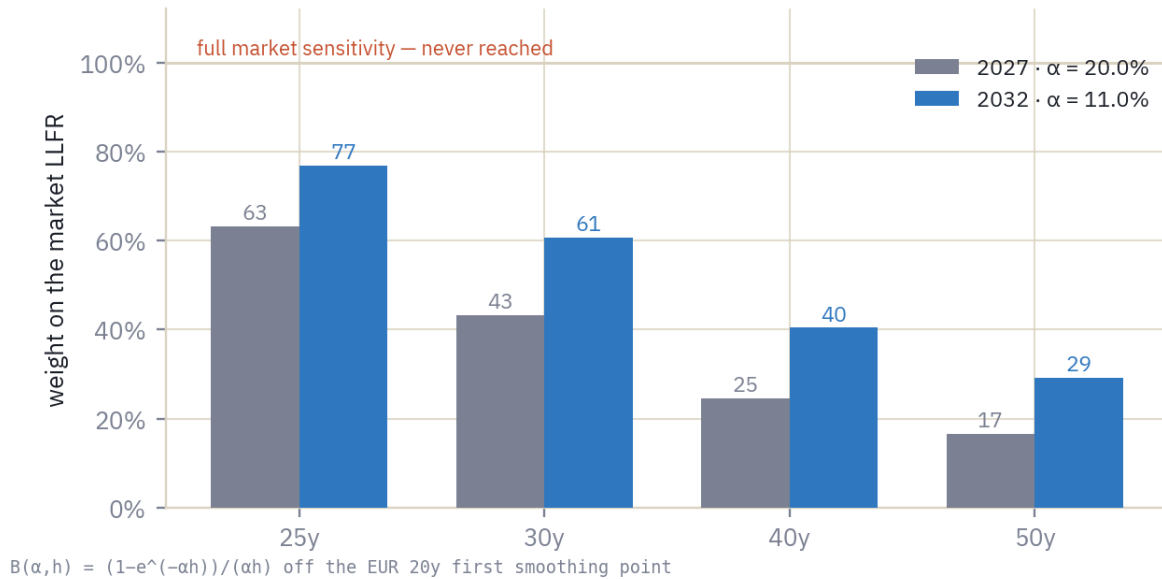
α has an end state of 11%. An optional phase-in, available on prior supervisory approval, decreases it linearly from 20.0% in 2027 to 11.0% in 2032.



The direction is the thing. Higher α means faster convergence to the UFR, so **2027 is the least market-sensitive year and sensitivity builds from there**. The phase-in is calibrated so that on 30 January 2027 the curve is "sufficiently similar" to the day before — it is designed to make go-live a non-event for those who take it.

And the migration never completes. Even at the end state, liability sensitivity moves onto market forwards only partially. The weight function is $B(\alpha, h) = (1 - e^{(-\alpha h)})/(\alpha h)$, where h is years past the smoothing point:

Even at the end state the UFR still anchors the very long end



At $\alpha = 11\%$, the 30-year point carries 61% market weight and the 50-year point 29%. The UFR still anchors the rest. This is not an accident of calibration — Article 77a(1) requires the UFR weight to be at least 77.5% at forty years past the smoothing point, and $\alpha = 11\%$ delivers 77.55%. **The end state is pinned to the floor.** Anyone modelling full convergence by 2032 is modelling something the Level 1 text forbids.

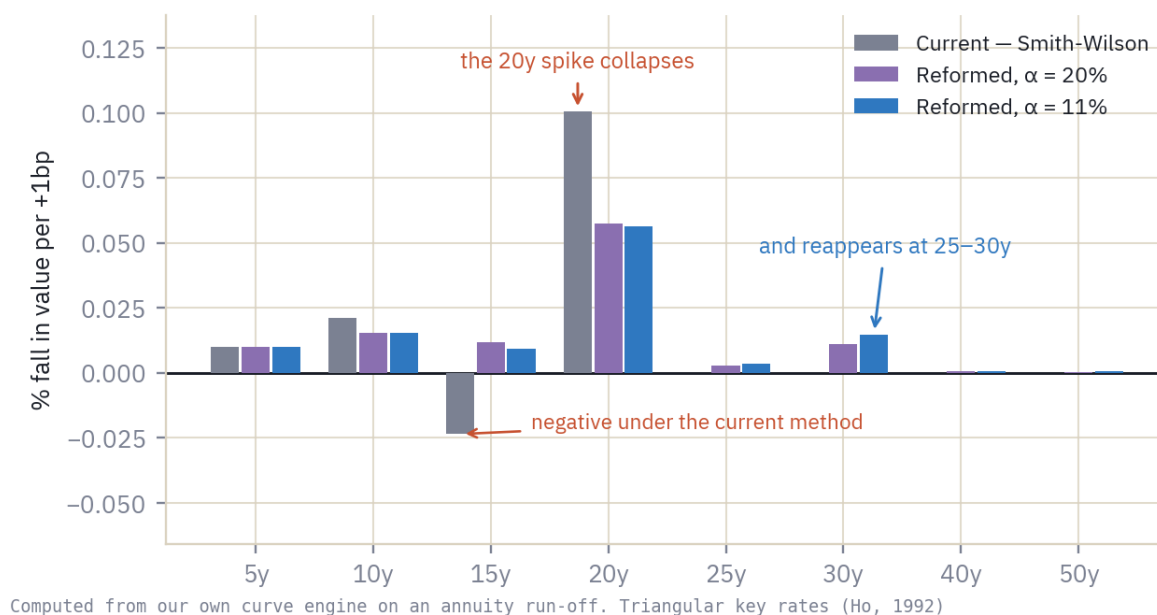
03

Where the risk actually sits

Curve levels move by a few basis points. That is not what matters. What matters is **where a liability book is sensitive to rates** — and there the reform is dramatic.

Bump one market tenor by a basis point, rebuild the whole curve, and reprice the book. Do it tenor by tenor and you get the regulatory balance sheet's rate exposure, maturity by maturity:

Where the rate risk sits, before and after



Three things fall out of it.

The 20-year node is doing all the work today, and stops. Under the current method every liability cash flow past twenty years is discounted off a curve pulled to a fixed Ultimate Forward Rate, so the entire long end is compressed into the 20y bucket. Reform roughly halves that spike.

What is released goes to 25–30 years, not to 50. The 30y bucket picks up most of it and 25y some; the 40y and 50y buckets barely move even at the end state. This is why the trade is a **20s/30s flattener**, executed at 25–30y, rather than the ultra-long expression the headline framing suggests.

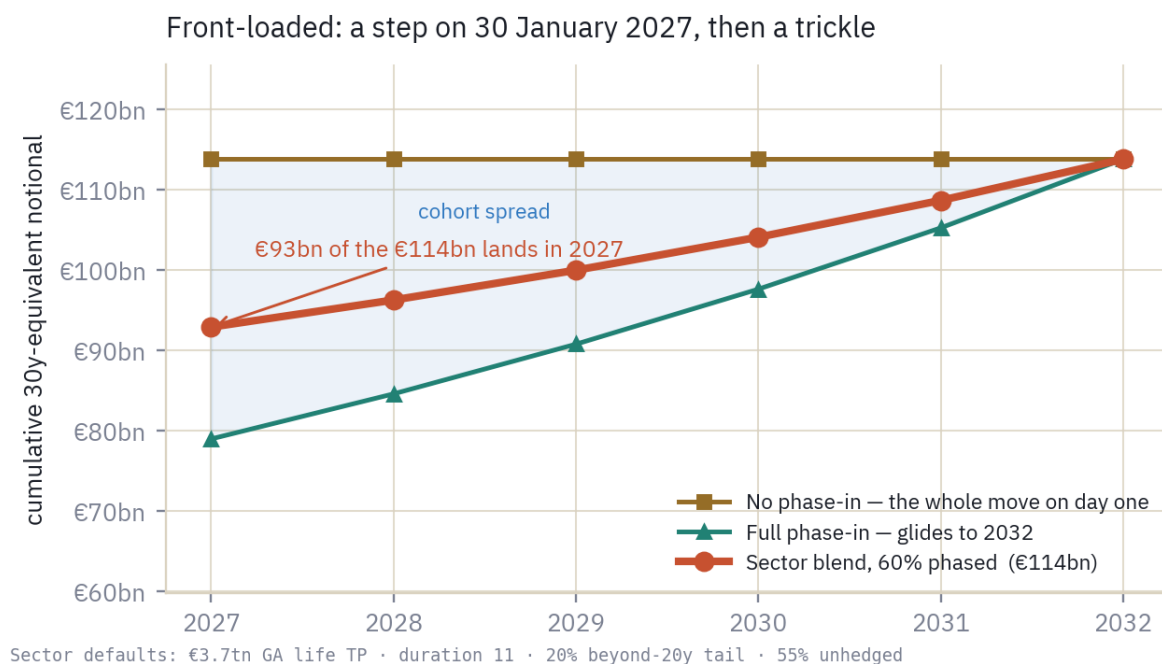
Some duration is invisible, and stays invisible. Add the bars up and you get the duration the regulatory curve can see. It is materially less than the book's true modified duration, because liability exposure anchored to the Ultimate Forward Rate does not respond to market rates at all. Reform recovers part of that gap. It does not close it.

There is a fourth feature, and it is an oddity worth knowing about. Under the current method the **15-year bucket is negative**: raising the fifteen-year rate increases the value of the liabilities. Smith-Wilson does not interpolate the market, it fits a curve subject to a fixed convergence target, so lifting an input near the end of the liquid range makes the fitted curve overshoot and then fall away faster beyond it. Discount factors further out rise, and for a book with heavy long cash flows that outweighs the direct effect. It is an artefact of the fitting method — and it means the current regulatory balance sheet responds to a fifteen-year move in the opposite direction to economics. The reform removes it.

The flow: size, shape, and a split worth trading

Walk a sector liability stock to a hedging requirement. €3.7tn of general-account euro-area life technical provisions, modified duration 11, a fifth of the DV01 sitting beyond twenty years, 55% of the newly-sensitive portion unhedged. Sensitivity is computed from $B(\alpha, h)$ across the beyond-20y tail rather than assumed — **45% at $\alpha = 20\%$, 61% at the end state** — then netted by 4% for the risk margin, which the reform shrinks and which is itself rate-sensitive.

That gives **€217m/bp of forced new hedging, or roughly €108bn of 30y-equivalent notional** over 2027–2032.



Two features matter more than the level.

It is front-loaded. Moving from today's Smith-Wilson curve to $\alpha = 20\%$ on 30 January 2027 is itself most of the re-sensitisation; the subsequent glide adds 1.8 percentage points of α a year. About €88bn of the €108bn lands in 2027, then roughly €4bn a year. An even five-year ramp is the natural reading of a five-year phase-in; it is not what the schedule produces. This is a step followed by a trickle.

The book splits into two cohorts, and they hedge on different schedules. The phase-in is optional and requires supervisory approval. Firms that get it glide. Firms that do not go straight to $\alpha = 11\%$ on day one — the whole move, at once. Since the phase-in is relief in a low-rate world and costs an ORSA dual-run plus disclosure of the un-phased impact, take-up will be neither universal nor negligible.

Two populations of forced buyers with different urgency, converging on the same terminal position — and from 2028 the split becomes **observable**, see section 08. Do not over-trade it, though. On NatWest's measurement the whole phase-in is worth **seven basis points of technical provisions**:

alternative extrapolation raises TPs by 0.40% at the end state and 0.33% on the transitional factor. The cohort split is how the regime works; it is not, on its own, a position.

05

The capital release, and the deadline in it

The rates story is half of it. The same reform frees own funds.

Risk margin. Cost-of-capital falls 6% → 4.75%, and a time-dependent factor $\lambda = 0.96$ is applied per projection year, floored at 50% (which binds from year 17 — arithmetic, not stated in the text). The Commission attributes "approximately 21%" of the reduction to the cost-of-capital cut alone, then says a decay factor is needed **despite** that. The λ effect is additional and **nowhere quantified by anyone official**. For long-tail books the total is meaningfully more than 21%.

One July change is worth flagging because it widens the beneficiary set. The consultation had **forbidden** recognition of λ in the duration-based simplification — the workhorse for smaller standard-formula annuity books. Industry objected and EIOPA reversed, rebuilding the method around an adjusted duration that carries λ explicitly. The firms with the longest books and the least developed hedging just got the relief they were going to be denied.

Matching adjustment — bigger in the euro area than the consensus read. DR 2026/269 strips every reference to matching-adjustment portfolios out of Articles 70, 81, 216, 217 and 234, and retitles Article 81 "Adjustment for ring-fenced funds". MA users no longer calculate a distinct notional SCR and may assume full diversification with the rest of the undertaking. This is a first-order capital item, not the "operational drag reduction" it has been billed as.

But it is **conditional**, and the condition was not written by EIOPA. Relief applies unless the assets covering the corresponding best estimate form a ring-fenced fund — and EIOPA's revised guidelines deleted the paragraph that used to deem MA portfolios into that machinery **without writing a replacement test**. The outcome now turns on generic ring-fencing criteria, above all national product-design law. It will vary by member state, EIOPA names none, and a request to extend the relief to other ring-fenced funds was refused on the record. With-profits gets nothing.

A dated action item. New Article 216(2) grants full diversification to any ring-fenced fund holding an Article 304 approval obtained **before 29 January 2027**. Before that date, relief; after, none. The revised guideline states the carve-out without the cut-off — a mismatch with the Delegated Regulation worth raising with counsel rather than relying on.

06

The volatility adjustment, and one claim that needs conditioning

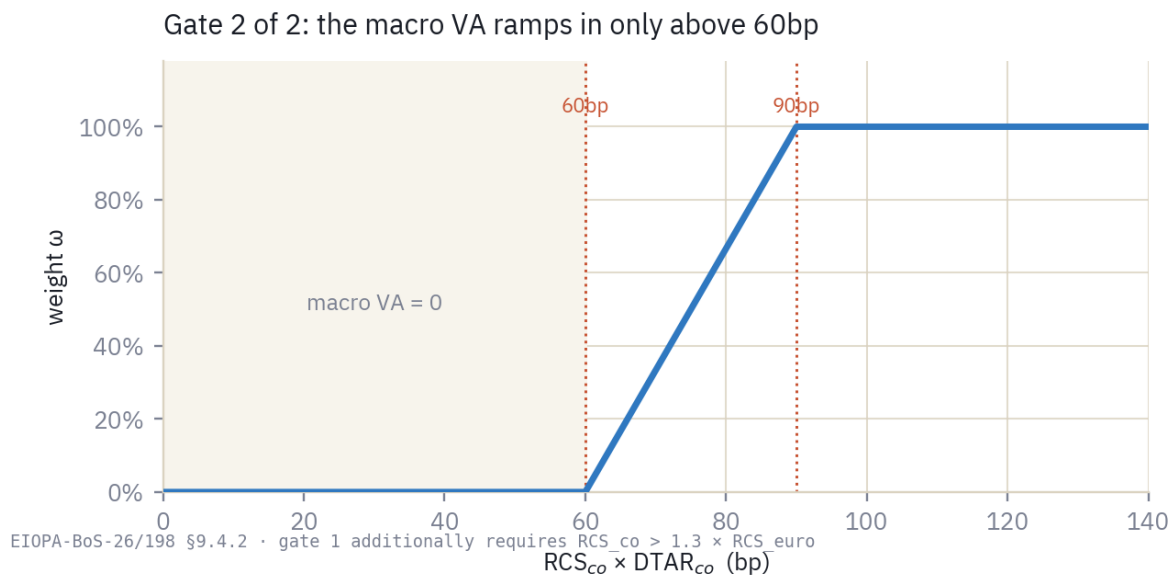
The general application ratio rises from 65% to 85%, scaled by a new entity-specific credit spread sensitivity ratio: $VA = 85\% \cdot CSSR \cdot RCS$, with CSSR bounded between zero and one.

What the CSSR tests is asset-liability management. It is the ratio of the spread-asset PVBP to the liability PVBP, so it cuts the benefit wherever assets and liabilities are duration-mismatched; a perfectly matched book scores one and keeps the lot.

And the uplift is small at today's spreads. On a matched book at end-June 2026 the volatility adjustment goes from **14bp to 18bp** — the ratio change and nothing else, $14 \times 85/65 = 18.3$. That is **+4bp**, worth nearer €20bn of own funds across the euro-area life book than the €50bn a wider-spread environment would give. The mechanism is permanent; the current payoff is not large.

The CSSR numerator is a **closed list** — "investments in bonds, loans and securitisations". The exclusion of derivatives is structural rather than stated: the list is exhaustive, and swaps are not on it. The consequence is that **cash spread assets lift the ratio and swap hedges do not**, which is why swap-hedged Dutch writers gain less on this axis than BTP-heavy Italian books, and why the marginal hedging decision tilts toward physical paper.

The claim that needs retiring is the lazy version of the macro component — "a quiet standing bid for BTP". It is nothing of the sort. The euro macro VA has **two gates, and both must open**:



The country risk-corrected spread must exceed **1.3×** the euro-wide figure, and the product of that spread and the country's insurance-sector bond-to-assets ratio must clear 60bp, ramping to full weight only at 90bp. At current peripheral spreads the first gate is very likely shut.

So the macro VA is **a contingent stabiliser that activates in stress, not a subsidy that runs in calm**. That is a better property for a regulator to have designed, and a worse one to be long of in carry terms. It is also mandatory only for firms not applying an undertaking-specific adjustment — which is itself capped at 105%, making it a haircut rather than an uplift. The two are mutually exclusive, and there is no VA at group level at all.

The instrument nobody has priced

The one genuinely new thing in July: **Guidelines on supervisory powers to remedy liquidity vulnerabilities**, under Article 144b of the amended Directive.

The escalation ladder ends somewhere the market has not thought about. Supervisors identify material liquidity risk, request a remedial plan, act on governance and buffers, then restrict **dividends, payments to shareholders and subordinated creditors, buy-backs, own-fund redemptions and variable remuneration** — and finally, as last resort, **suspend life policyholder redemption rights for up to three months, renewable**.

No product carve-outs. Unit-linked, with-profits and surrenderable savings are all in scope, and EIOPA declined a request to permit partial or phased redemptions. Of the eight listed triggering events, three are ours: "unforeseen, sharp and steep changes of interest rates", "market-wide liquidity freeze or inability to sell assets without material impairment", and "increased derivative risk and margin calls". EIOPA declined to narrow the test, citing 2008, **the UK gilt crisis of 2023**, and **Eurovita in 2025**.

Three implications, in ascending order of tradability.

- **A floor under the forced-seller tail.** An LDI-style margin spiral in euro insurance now has a named circuit-breaker. That caps the worst case for a lapse-driven unwind of the very bid this note is about.
- **A rate shock is now formally a liquidity trigger.** The regime contemplates rates causing a redemption freeze. That is a regime change in how insurer liquidity risk should be modelled, not a footnote.
- **A new coupon-risk channel on insurance subordinated capital.** Payments to subordinated creditors are explicitly restrictable, and while a redemption suspension is in force the distribution ban is **automatic**. Supervisors must make their reasons public. That is a supervisor-triggered, liquidity-driven, publicly-disclosed distribution stop on RT1 and Tier 2 that did not exist before — activated by conditions with nothing to do with solvency. Insurance sub debt is not priced for it.

Activation is deliberately discretionary: EIOPA rejected quantitative thresholds in favour of a non-exhaustive indicator list. Expect national variation, and expect the first use to be repriced across the sector rather than the name.

What becomes observable in 2028

Most of this note rests on sector aggregates because firm-level data does not exist. That changes, on a date.

From the **SFCR for financial year 2027, published in 2028**, two templates become public disclosure:

- **S.22.07** — the volatility adjustment and corresponding best estimates **by country and by currency**. Industry asked EIOPA to restrict it; EIOPA refused. This replaces two of the softest assumptions in

any sector model at once: VA-eligible technical provisions per name, and the country split of the liability book.

- **S.22.01** — the impact of the **extrapolation phase-in**, per firm, alongside the combined effect of all transitional measures. This tells you exactly **which insurer took the phase-in and what it is worth to them**.

The second one resolves the cohort split in section 03 from disclosure rather than assumption. Until then it is a modelling choice; from 2028 it is a screen.

Separately, every member state must now publish whether it permits credit-spread movements on the VA to be modelled in an internal model — a free cross-country map of where dynamic-VA convexity is allowed to sit.

09

Positioning

Receive the ultra-long end, but size it correctly and expect it early. The structural bid is real and the 20s/30s flattener is the clean expression, but at roughly half the notional the consensus assumes, and with the bulk of it in 2027 rather than spread evenly. Anyone carrying a five-year ramp in their flow model is both too big and too late.

Do not extrapolate to full convergence, and do not reach for 50y. The 40–50y segment stays UFR-anchored — 29% market weight at 50y at the end state — and on a key-rate view those buckets barely move at all. The migration concentrates at **25–30y**, which is where the receiving belongs. Structures that need the very long end to become fully market-driven do not have a regulatory catalyst.

Prefer the cash leg where the CSSR binds. Bonds, loans and securitisations count; swaps do not. That is a marginal widener for long-end asset swap spreads, and it is why the securitisation recalibration matters more than its headline size — a 1–2% rotation of the €5.2tn book into senior CLO/STS is €52–104bn against a measured EEA securitisation book of €35bn.

Treat the macro VA as optionality, not carry. It pays in a peripheral stress and is worth nothing in calm. Price it that way.

Look at insurance sub debt through the liquidity lens. The distribution-stop channel is new, discretionary, publicly disclosed and unrelated to solvency ratios.

Diarise 29 January 2027 for the Article 304 approval cut-off, and **2028** for the first disclosure that makes any of this checkable per name.

10

Method

Every regulatory parameter is cited to a document, a section and a table, and carries a verification date. They sit in a registry that the model, the charts and this text all compute from, so

a figure cannot appear in one place and disagree with another. A test suite enforces it on every change.

The curve engine reproduces EIOPA's own output. Our alternative-method curve matches EIOPA's published worked example to within 0.05bp, the Last Liquid Forward Rate to the published digit, and the par-swap bootstrap to within 0.2bp. The Smith-Wilson comparison is within about 2bp of the official monthly curve — the public file exposes fitted zeros rather than raw inputs, which accounts for the residual.

Sensitivity is derived, not assumed. The re-sensitisation path comes from EIOPA's extrapolation weight function evaluated on the published α schedule, weighted across the beyond-20y tail. It is not a judgement about how much of the curve "feels" market-driven.

What is modelled rather than observed is the balance-sheet layer: liability duration, the share of DV01 beyond twenty years, the unhedged proportion, and the split between phase-in cohorts. These are sector-level and adjustable, and they do the work in the flow estimate. Three of the four become checkable against disclosure in 2028. The swap-spread elasticities are stylised: they show direction and relative scale, not a spread forecast.

This is a scenario engine, not a forecast.

11

Sources

- EIOPA, EIOPA completes Solvency II Review mandate with final guidelines and draft technical standards, 15 July 2026 — eight instruments, all applying 30 January 2027
- EIOPA-BoS-26/198, RFR Technical Documentation (Solvency II Review), 26 May 2026 — §8.1.5 and Table 4 (α), §9.3 (CSSR), §9.4 (macro VA)
- EIOPA-BoS-26/282, Guidelines on supervisory powers to remedy liquidity vulnerabilities, adopted 23 June 2026
- EIOPA-BoS-26/284, revised Guidelines on ring-fenced funds; EIOPA-BoS-26/287, revised ITS on the matching adjustment
- EIOPA-BoS-26/285, revised Guidelines on the valuation of technical provisions; EIOPA-BoS-26/289, RTS on the simplified calculation of the risk margin
- EIOPA-BoS-26/081, Final report on supervisory reporting and public disclosure requirements, 30 March 2026 — S.22.07, S.22.01
- Commission Delegated Regulation (EU) 2026/269 (OJ L, 18 February 2026) — risk margin, matching adjustment, CSSR (Art. 51a), Art. 216(2)
- Directive (EU) 2025/2 — Art. 77a (extrapolation and phase-in), Art. 144b (liquidity powers)
- ECB and EIOPA insurance statistics for sector aggregates; company SFCRs and IFRS filings for the balance-sheet layer

Derived from public sources — see method. Estimates, not official publications. Not investment advice. ·
bzhmacro.com