

# Long-term equity investment changes: how the revised LTEI framework unlocks the opportunity set

April 2026



For insurance companies that are subject to Solvency II and are writing lines of business that don't pass investment risk to the policyholder, equity investments have a standard formula market risk capital requirement of around 39% or 49%. While this hasn't stopped insurers taking equity exposure, in both public and private markets, it often makes allocations difficult to justify on a return-on-capital basis versus fixed income.<sup>1</sup>

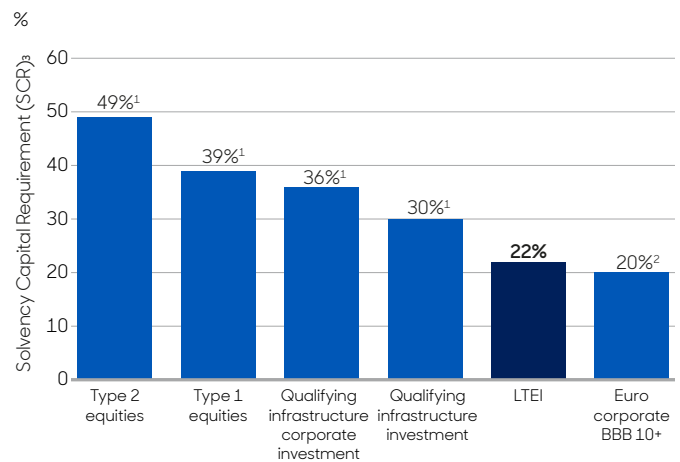
There are already ways to access equity more efficiently than the standard treatment. In 2019, Commission Delegated Regulation (EU) 2019/981 expanded the qualifying infrastructure rules, allowing insurers to reduce capital requirements to 30–36%<sup>2</sup> on infrastructure equity investments that met specific criteria. Over the last two years, we've seen a material increase in infrastructure equity allocations, especially from P&C (property and casualty) insurers. The same amendment also introduced the focus of this paper, the long-term equity investments (LTEI) category. This aimed to recognise insurance companies' role as long-term investors and encourage investment in the real economy.

The introduction of the LTEI category allowed insurers to get capital treatment as low as 22%. However, it came with stringent, hard-to-meet requirements, which have limited its use to around 4%<sup>3</sup> of Solvency II-regulated insurers. Policymakers have responded by amending the regulation and updating the long-term equity framework. We expect this will make the 22% capital treatment much more attainable for Continental European insurers (noting the changes do not apply for UK under Solvency UK) when the new rules officially come into force in January 2027.

This paper summarises:

- what those revised requirements are.
- how insurers could optimally implement LTEI exposure.
- what we believe the key building blocks will be.
- what an illustrative LTEI portfolio might look like.
- what is required to demonstrate compliance with the regulation.

The chart below compares the Solvency Capital Requirement (SCR) for market risk under the standard formula across selected asset classes, highlighting the capital benefit of long-term equity investments. We note that the standard formula capital consumption of LTEI is broadly comparable to that of 10-year BBB-rated corporate bonds, further highlighting the potential attractiveness of allocating to an LTEI portfolio.



Source: Aberdeen March, 2026.

<sup>1</sup> Before allowance for the symmetric adjustment of up to +/- 13%, applied using a fully loaded (100%) factor for type 1 and 2 equity, and partially loaded (92% and 77%, respectively) for qualifying infrastructure corporates and qualifying infrastructure.

<sup>2</sup> The SCR for 10-year credit reflects spread risk only.

<sup>3</sup> Standalone market risk only, before diversification with other investment and non-investment risks. All assets are assumed to be fully currency-hedged.

<sup>1</sup> We note that this is simplified – for example, a different capital requirement applies to qualifying infrastructure equity investments. Additionally, the final capital requirement will need to take account of the symmetric adjustment as well as diversification, noting that the symmetric adjustment does not apply to long-term equity investments.

<sup>2</sup> +/- the symmetric adjustment (applied with a loading factor that depends on the asset categorisation).

<sup>3</sup> EIOPA published 'Background document on the opinion of the 2020 review of Solvency II: Impact assessment'.

# What are the long-term equity requirements as of January 2027?

The principle behind the lower capital treatment for LTEI is the recognition that insurers can have long investment horizons, robust risk management and adequate measures to avoid forced sales. To benefit from LTEI capital treatment, insurers must therefore demonstrate the following to the supervisory authority:<sup>4</sup>

01	A five-year commitment – insurers must commit to holding the equity exposure for at least five years. However, they can rebalance or trade individual assets within this period. Under the new rule, limited turnover is permitted, but the equity exposure must be maintained.
02	Equities are listed on regulated markets in the European Economic Area (EEA) or Organisation for Economic Co-operation and Development (OECD), or are unlisted with their head offices in the EEA or OECD.
03	The LTEI portfolio is sufficiently diversified to prevent over-reliance on a single issuer or risk.
04	Insurers have robust asset-liability management policies and governance and can avoid forced sales for five years, including under stressed conditions. This is a key requirement, and a later section is dedicated to it.

<sup>4</sup> Directive (EU) 2025/2, Article 105a.

<sup>5</sup> Commission Delegated Regulation (EU), Article 171d.  
Such funds are those that are treated as Type 1 equity under the current rules.

## Fund investments

Certain fund investments will qualify at the fund level, rather than being assessed asset by asset.<sup>5</sup> To avoid the look-through requirement, funds must be either a European long-term investment fund, a qualifying social entrepreneurship fund, a qualifying venture capital fund, or an unlevered closed-ended alternative investment fund managed by an authorised European Union alternative investment fund manager. It's worth noting that, while LTEI rules allow derivatives for hedging purposes and temporary borrowing matched by capital commitments, leverage is otherwise restricted.



# Investment solutions for long-term equity portfolios

## Diversified fund-of-one

The new long-term equity requirements allow assessment at the fund level. With the diversification requirement and the ability to trade the assets that make up the LTEI exposure in mind, we believe a compelling option is for insurance companies to invest in a dedicated long-term equity fund of one, which optimises within the investible universe and LTEI rules.

A fund of one would be:

- Classified as LTEI at the fund level.
- Sized with long-term equity rules in mind, designed to meet the forced sale stress test.
- Designed so its investment guidelines match LTEI requirements and the insurer's risk appetite and return-on-capital hurdles.
- Able to invest across equity asset classes that the insurer is comfortable with from a Prudent Person Principle perspective.
- Able to vary allocations between equity exposures over time, as the LTEI classification is held at the fund level and turnover is allowable within the vehicle.
- Can target outcomes important to the insurer, such as an economic inflation hedge or low correlation to the rest of the balance sheet.

This approach means that an asset manager like Aberdeen Investments, positioned through its insurance asset management and actuarial expertise, alongside its private market capabilities, can partner with insurers in delivering a diversified long-term equity fund optimised within the LTEI framework.

This can be implemented on either a non-discretionary basis, where the insurer approves each underlying LTEI investment, or on a discretionary basis, where Aberdeen selects investments for the insurer within agreed investment guidelines.

For insurers with the capacity to undertake deep research and monitoring across equity asset classes, Aberdeen can also provide the operational infrastructure of a long-term equity fund, alongside advisory support on portfolio optimisation, LTEI sizing and manager selection.

## Commingled long-term equity fund

For insurers with an LTEI portfolio that is not large enough to justify the operational costs of a fund-of-one structure, a commingled long-term equity fund, with investment guidelines designed to meet LTEI requirements, may be optimal. Support around sizing and stress testing can still be provided, while the commingled structure offers scale benefits that help minimise operational costs.

# Investment building blocks for long-term equity portfolios

## Infrastructure equity

Aberdeen manages EUR 13 billion\* globally in infrastructure across equity and debt markets, supporting insurers' prudent allocation to the asset class.

Infrastructure equity has become an increasing focus for insurers, with future allocation expectations often comparable to private credit and, in some cases, viewed as a partial substitute for traditional real estate. While infrastructure debt was the initial entry point for many insurers, compressed spreads and reduced capital treatment via qualifying rules have led to greater consideration of equity allocations.

Given the essential nature of infrastructure assets and the contractual cash flows they can generate, infrastructure equity exposure can offer a combination of resilient total returns, consistent yield, inflation linkage and diversification benefits.

## Private equity

Where Solvency II insurers allocate to private equity, it typically plays a small, selective role as a return-enhancing, long-term allocation with diversifying properties within portfolios that are otherwise credit-based.

Private equity strategies are typically grouped into two categories. Growth equity, which provides capital to mid-sized businesses with established revenues seeking to scale, and buyout strategies, which involve acquiring controlling stakes in established businesses and creating value through operational and financial improvements.

Aberdeen's private market solutions business sources best-in-class private equity investments for existing client solutions and can tailor allocations to support a high-quality private equity capital allocation within an LTEI solution.

## Venture capital

Under the Solvency II rules, European venture capital funds (EuVECA) are eligible for fund-level classification as long-term equity investments. Venture capital has not historically been a core allocation for insurers due to its capital intensity, but allocating within the LTEI categorisation is more compelling from a return-on-capital perspective. It also provides exposure to a different set of companies than those typically issuing bonds and can support innovation across areas such as insurtech, data, claims automation and distribution.

Aberdeen's private market solutions business identifies and accesses venture capital opportunities for existing client solutions, with the flexibility to tailor sourcing to support venture capital exposure within an LTEI solution.

## Listed equities

While the five-year holding period requirement lends itself to harvesting the illiquidity premium associated with private markets, optimal portfolio construction may still point to an allocation to listed equities within an LTEI portfolio.

Aberdeen's Quantitative Index Solutions business was established to support bespoke insurance requirements. It offers both ready-made portfolio building blocks and tailored solutions that can be incorporated within a long-term equity portfolio.

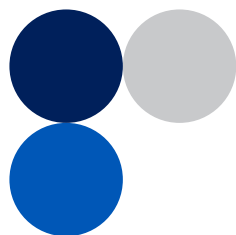
## Real estate

Aberdeen manages EUR 41 billion\* in real estate, and we see both debt and equity as having a role within insurance portfolios. Direct real estate is captured by the property risk sub-module under Solvency II and therefore cannot be included in LTEI portfolios. We expect the only exception to be REITs (real estate investment trusts), which are captured by the equity risk sub-module.

## Equity of securitisations

Even when classified at the fund level, the new rules still require look-through to the underlying assets where possible. That said, the inability to achieve look-through does not prohibit LTEI treatment.

In general, the capital requirement for the equity tranche of a securitisation must be calculated under the spread risk module. As an unrated, first-loss position, this incurs a 100% capital charge, even under the new securitisation rules. There is nothing in the amended long-term equity rules that would overrule this outcome.

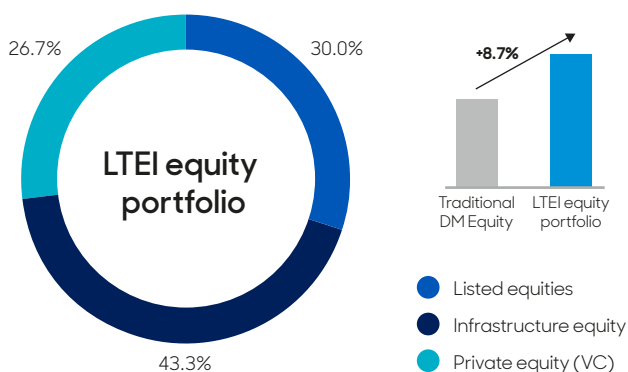


\* AUM stated as at Dec 2025.

# LTEI portfolio optimisation

The portfolio shown below is an illustrative example of how a diversified, LTEI compliant portfolio could be allocated. It has been calibrated to deliver volatility in line with the MSCI World (Developed Markets) Index and is optimised on a risk return basis using Aberdeen's long-term capital market assumptions. Listed equity exposure is diversified across global developed markets, reflecting our house views on regional opportunities and long-term return drivers.

Within the private equity allocation, the optimisation currently favours venture capital over buyout due to higher expected return assumptions, although buyout strategies could also form part of an optimal allocation under different return, risk or diversification objectives.



Source: Aberdeen, March, 2026.

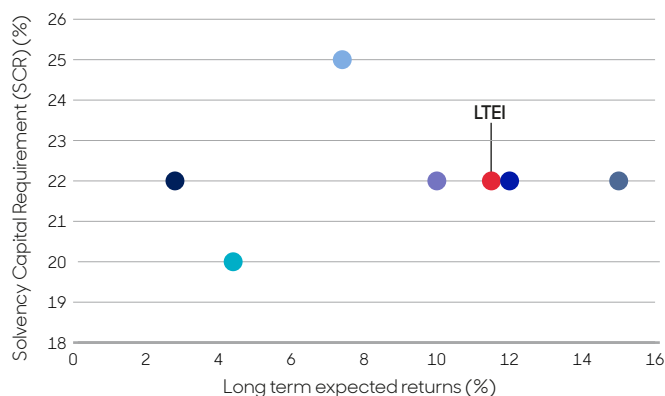
<sup>1</sup> Expected returns and volatility are based on Aberdeen long-term capital market assumptions as at 31 Dec 2025.

<sup>2</sup> The MSCI World (Developed Markets) Index is used as a volatility reference only and is not a benchmark.

<sup>3</sup> Illustrative portfolio shown for discussion purposes only; actual outcomes will depend on portfolio design and insurer-specific calibration.

On our current assumptions, as shown above, the illustrative LTEI portfolio delivers an expected return approximately 8.7% higher than a traditional developed market equity allocation, for a comparable level of volatility. Under the revised regulatory framework, this improvement in expected return is achieved without an increase in capital requirements (assuming a developed market equity allocation that also satisfies the LTEI requirements), resulting in a materially higher return on capital than would have been achievable as type 1 equity under the previous standard equity capital rules. This example is provided for illustrative purposes only. In practice, we would work closely with insurance clients to carry out a bespoke optimisation exercise, tailoring portfolios to reflect their specific objectives, risk tolerances, capital position and broader asset allocation.

The optimisation benefits of the LTEI framework are illustrated further in the chart below, which compares the expected long-term returns and standalone contributions to Solvency Capital Requirements (SCR) for market risk across a range of public and private market asset classes. The chart highlights that LTEI compliant equity and private market strategies can deliver materially higher expected returns than traditional listed equity and investment grade credit, while operating within a comparable capital range. In particular, the diversified LTEI equity portfolio stands out on a multi-dimensional assessment of expected return, capital requirement and diversification, whereas private equity and infrastructure represent high-returning standalone exposures.



- Diversified public & private equity portfolio (LTEI)
- MSCI world (LTEI)
- Euro corporate BBB 10+
- Core infrastructure equity (LTEI)
- Direct real estate
- PE buyout (LTEI)
- PE venture capital (LTEI)

Source: Aberdeen, March, 2026.

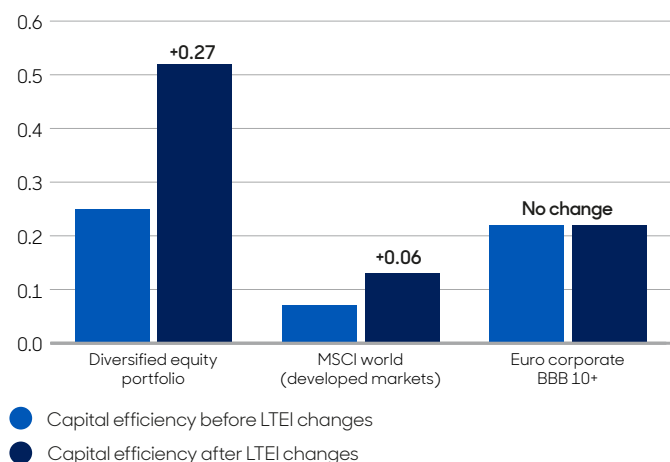
<sup>1</sup> Expected returns are based on in-house long-term capital market assumptions as at 31 Dec 2025.

<sup>2</sup> SCRs reflect standard formula capital requirements. Equity SCRs exclude allowance for the applicable symmetric adjustment. Credit SCR reflects spread risk only. All assets are assumed to be fully currency-hedged.

<sup>3</sup> (LTEI) indicates the SCR post regulatory reform, assuming portfolios structured to be compliant with LTEI requirements.



The impact of the incoming regulatory changes on capital efficiency is shown in the chart below. Capital efficiency, defined as expected return per unit of SCR, improves materially for equity strategies under the LTEI framework. On an illustrative basis, capital efficiency increases by approximately 0.27 for diversified equity portfolios and 0.06 for developed market equities. By contrast, capital efficiency for investment grade credit remains unchanged, reflecting the fact that credit capital requirements are primarily driven by spread risk and are unaffected by the LTEI reforms.



Source: Aberdeen, March, 2026.

<sup>1</sup> Capital efficiency defined as expected long-term return divided by SCR.  
<sup>2</sup> Equity SCRs exclude allowance for the applicable symmetric adjustment. Credit SCR reflects spread risk only. All assets assumed to be fully currency-hedged  
<sup>3</sup> Illustrative analysis for comparative purposes only; actual outcomes will depend on portfolio construction and insurer-specific calibration.



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# Guidance for meeting LTEI regulations and stress testing requirements



To benefit from the preferential capital treatment of LTEI, insurers must be able to demonstrate to the regulator a genuine ability to hold these assets over the long term and avoid forced sales during periods of market stress. This requires meeting specific regulatory tests designed to evidence balance sheet resilience and long term liquidity strength.

The rules offer two alternative ways to demonstrate such resilience.<sup>6</sup> The first focuses on the characteristics of liabilities or liquidity profile. For life business, the insurer must show that LTEI assets are supported by sufficient stable, long-duration liabilities whilst, for non-life business, the insurer must evidence sufficient liquidity relative to their obligations. The second option involves a forward-

looking "forced selling test", which assesses, over a five-year horizon, whether the insurer would remain cash-flow positive and avoid selling assets – particularly LTEI – under both normal and stressed conditions.

These requirements aim to ensure that only genuinely long-term, strategically held equity allocations benefit from the reduced capital charges.

Aberdeen, with extensive Solvency II expertise and actuarial resource within our Strategic Insurance Group, is well positioned to support insurers to size their LTEI allocations, as well as to support insurers in determining the most appropriate route to qualification and meet the ongoing monitoring expectations associated with these tests.

<sup>6</sup> Commission Delegated Regulation (EU), Articles 171a and 171b.

## Conclusion

The incoming changes to the LTEI requirements present a compelling opportunity for European insurers, with the potential to increase equity allocations by enabling access to the return and diversification benefits of equity markets at a capital requirement broadly comparable to the spread risk capital applied to long-duration BBB fixed income.

To access this opportunity effectively, insurers will need to combine:

- A clear understanding of the new LTEI rules.
- An ability to size a position relative to the prescribed stress tests and meet ongoing reporting requirements.
- The ability to optimise a portfolio through an insurance balance-sheet lens, across private equity, venture capital, infrastructure and listed equities.

Aberdeen is well-placed to support insurers in navigating this opportunity, combining deep insurance-specific expertise with a long track record in constructing public and private markets portfolios across asset classes.

Our Strategic Insurance Group works with insurers globally on balance sheet-aware investment solutions, bringing together actuarial, regulatory and investment expertise.

With our origins in an insurance company, insurance asset management is central to our heritage. Today, Aberdeen Investments is a global asset manager whose clients include more than 150 insurance clients worldwide for whom we manage over €229 billion in assets across credit, multi-asset, quantitative index strategies, and real assets.

To discuss any of the themes raised in this paper, please contact [strategicinsurancegroup@aberdeenplc.com](mailto:strategicinsurancegroup@aberdeenplc.com).



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