SRTs

SRT (Significant Risk Transfer) transactions have evolved in Europe well beyond their original, relatively narrow purpose. Initially developed as a mechanism for banks to achieve capital relief under regulatory frameworks such as Basel III, they were primarily used to transfer credit risk and thereby free up regulatory capital. While this function remains central, SRTs have increasingly taken on a broader strategic role within credit risk management. Rather than simply reducing risk, they enable banks to actively shape the risk profile of their loan portfolios (retail but also loans to companies) without selling the underlying assets. In practice, this allows institutions to optimize capital allocation, manage concentration risks across sectors or geographies, support new lending by creating additional balance sheet capacity, and enhance return on equity (this last point remains imperfectly understood. The crucial point here is not capital relief as someone writes, but how "the saving" is used for new business).

As a result, SRTs need to become embedded in an overall balance sheet strategy, occupying a space between traditional securitization and active portfolio management. SRTs have a defined role alongside other asset and liability actions like origination and capital allocation for different economic returns; instead of being executed opportunistically, they are part of a forward-looking roadmap.

Banks—not only large financial institutions; this is important to emphasize because it is a "new banking model"—are increasingly using SRT transactions, while more investors are allocating capital to this asset class, making SRTs a growing link between bank balance sheet management and investor demand for credit risk exposure into segments of the economy that would otherwise be difficult to access.

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