EIOPA OPSG – Infrastructure Update

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Status

- 25.03.2015 – 26.04.2015: consultation (CP-15-003) discussion paper on Infrastructure Investments by Insurers
- 26.04.2015: IRSG submission of response to discussion paper on Infrastructure Investments by Insurers
- 28.0.2015: IRSG meeting and discussion on Infrastructure
- 18.05.2015: Second EIOPA roundtable in Infrastructure with focus on preliminary ideas developed by EIOPA on the basis of the discussion paper
- June 2015: EIOPA submission of Technical Advice

Key Items of the Discussion Paper

- **Introduction**: elements in Solvency II which prevents insurers from investing into Infrastructure other than capital requirements

  -> understanding the “problem”

- **Characteristics of Infrastructure Investments with a different risk profile**: Evaluation of infrastructure investments with a different risk profile than implied by the standard formula

  -> reasoning for a different treatment of that asset class

- **Definition of a category of infrastructure investments**

  -> consistent and comprehensive categorisation

- **Regulatory Risk Charges and Integration into the SCR calculation**

  -> risk based, appropriate capital charges

- **Risk Management, Investor Information and Standardisation**

  -> covering the “soft” facts / prundent persons principle

Key Items of the IRSG’s response

Introduction:

- current valuation approach causes high volatility in own funds which has a larger impact than the pure SCR
- non-consistent risk charges relative to other asset classes cause a risk-adverse allocation of the investment portfolio

Characteristics:

- almost all infrastructure project investments have a different risk profile (probability of default as well as loss given default) than implied by the standard model

Definition:

- project finance (as defined in CRR: specialised finance)
- with the function of the “opera publica” (service for the public)

Capital Charges:

- equity under the strategic equity module
- debt counterparty risk module (default only) not Spread risk module

Risk Management:

- no further requirements under pillar 2 and 3
- Standardisation of documentation but not risk-profiles

Annex:
EU Bank prudential treatment of specialised lending exposures (SLEs)

IRBF and IRBA

- Firms model the PDs (IRBF & IRBA) and LGDs (IRBA only) SLEs
- These are inputs into the supervisory function that determines the risk weight for the corporate asset class
- They are required to obtain supervisory approval for applying the IRB approaches first
- Firms not able to estimate PDs or who do not meet supervisors' IRB requirements must use the following slotting table using factors listed in CRR Article 153 § 3, as a percentage of 8%:

Regulatory RWs for SLEs	Cat1 (strong)	Cat2 (good)	Cat3 (satis)	Cat4 (weak)
CRR, M<2.5 yrs remaining	50%	70%	115%	250%
CRR, M>2.5 yrs remaining (**& Basel**)	70%	90%	115%	250%