Infrastructure projects – Improved data is needed to support the reassessment of risk

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EIOPA reviewed the standard formula calibration for a number of long-term investments under Solvency II. Our analysis covered in particular infrastructure project debt and equity.

Marginal default rates indicate that the risk profile of unrated infrastructure project debt improves over time. At the same time we concluded that reflecting this in the standard formula would pose a number of technical challenges while the resulting investment incentives might be quite limited.

A possible alternative would be to introduce reduced risk charges for individual infrastructure segments. There was actually some evidence to support a slight reduction for unrated availability based infrastructure debt. But the empirical basis was limited and the supporting proprietary data could not be validated.

At the end EIOPA concluded that lower risk charges for infrastructure project finance cannot be recommended at this point in time. One of the main reasons was a lack of reliable evidence. There are a number of initiatives underway to improve data availability which might prove helpful in a potential future reassessment.

Capital charges are not the only factor. Insurers have to acquire the necessary skills to become comfortable with investing in this relatively new and heterogeneous asset class. They may find it also difficult to access relevant performance data and have to learn to manage new risks (e.g. construction and legal risk).

The study was conducted with the input from a range of experts representing industry, regulatory bodies and the academic world. The main challenge EIOPA faced during this research was the lack of comprehensive and publicly available performance data for all types of unlisted infrastructure assets. The access to these data is crucial for EIOPA because as a prudential regulator we need to base our recommendations on empirical evidence.

We are confident that the current calibration will allow for a good alignment between risk and capital management and, therefore, can support the long term growth objectives in a prudent and sustainable way. A review should be made when further data would be available. ■