Swiss Re

Developing Infrastructure as an Asset Class - Policy Options and call for actions

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Incentivising the private sector is key – We need standardization

Infrastructure financing needs until 2030:	**USD 43trn**
Advanced economy debt to GDP ratio:	**111%**
Long-term investor asset base:	**USD 75trn**
Capital market share of infrastructure debt financing:	**~15%**
ESG assets available for investments:	**~10%**

Source: McKinsey, OECD, S&P, Preqin, WEF and IIF. Numbers based on latest available data

Note: McKinsey estimates infrastructure financing needs at USD 3.3trn/year to support expected economic growth rates. ESG assets available for investments is relative to available pool of investments across asset classes

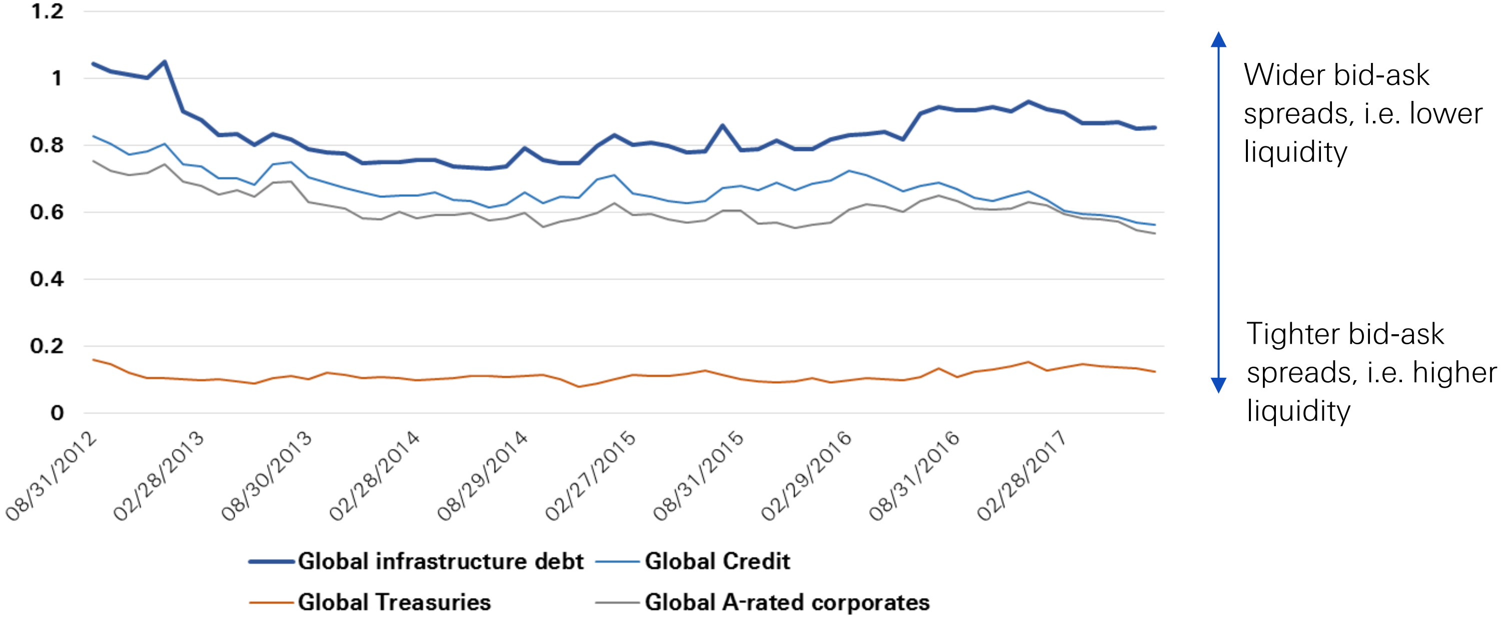
Infrastructure as an asset class: 3 policy wishes

#1: Strengthen private capital market intermediation

#2: Unlock the large asset base of long-term institutional investors

#3: Support the development of a tradable infrastructure asset class and strengthen investor rights

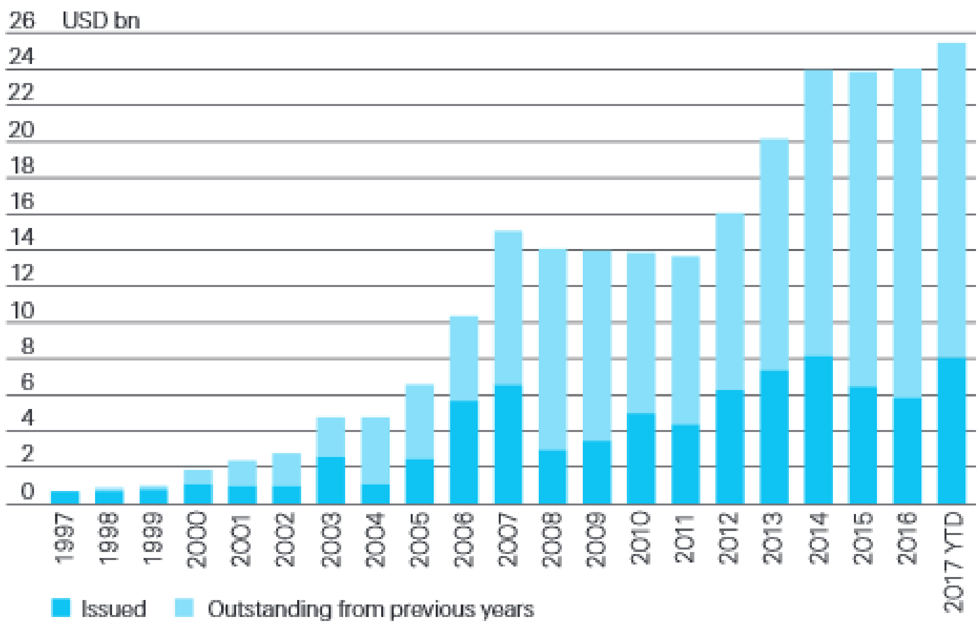
Fact #1: Infrastructure debt tradability needs to be improved



Source: Swiss Re, Bloomberg/Barclays, Moody's

Fact #2: Standardization was key to ILS' success and would allow infrastructure to grow in size and depth

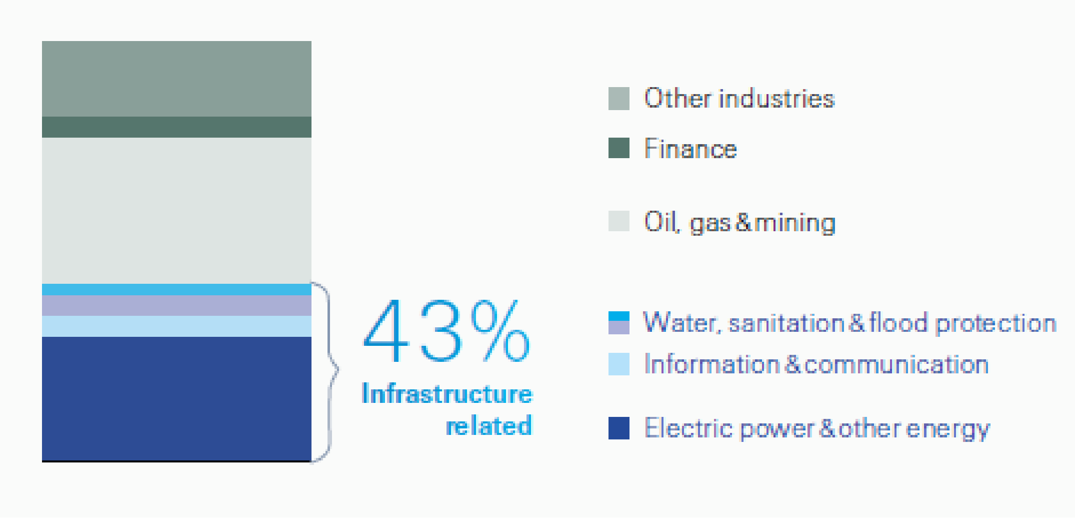
Fig 1: Yearly issuance and outstanding ILS bonds



Source: Swiss Re Capital Markets, As of June 30, 2017

Fact #3: Standardization to strengthen investor rights

Fig 1: ICSID* arbitration cases by industry, new cases 2013-14



Source: WEF (2014)

*International Centre for Settlement of Investment Disputes

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Our call for action (I/II): Implement an universally applicable template to standardise infrastructure debt documentation and disclosure

- **Swiss Re co-chaired the European Financial Services Roundtable (EFR)** initiative on "Best Practices towards Standardisation and Harmonisation" for infrastructure debt

- The **framework is the most advanced template for documentation and disclosure and could be translated into commonly agreed public/private "best practices"**

- **MDBs and private sector should work on "best practice" pilot benchmark transation**

The **EFR framework**, published as a strategic paper includes **four key elements**:

i. **Disclosure and reporting requirements**: an industry standard template has been developed

ii. **Debt terms and documentation**: a common governing standard would represent a good step towards harmonising contract terms across jurisdictions

iii. **Administration and arbitration**: information on administrative responsibilities, e.g. cash flow and collateral management, and a commonly agreed dispute resolution mechanism

iv. **Third party advisors**: clear guidelines for the interaction and disclosure related to third party advisors such as technical advisors, consultants and auditors

The strategic paper is available here:
http://www.efr.be/documents/news/86.02.03.2015%20EFR%20Expanded%20on%20Infrastructure%202015.pdf

Our call for action (II/II)
A “best practices” Public Private Partnership benchmark transaction is crucial

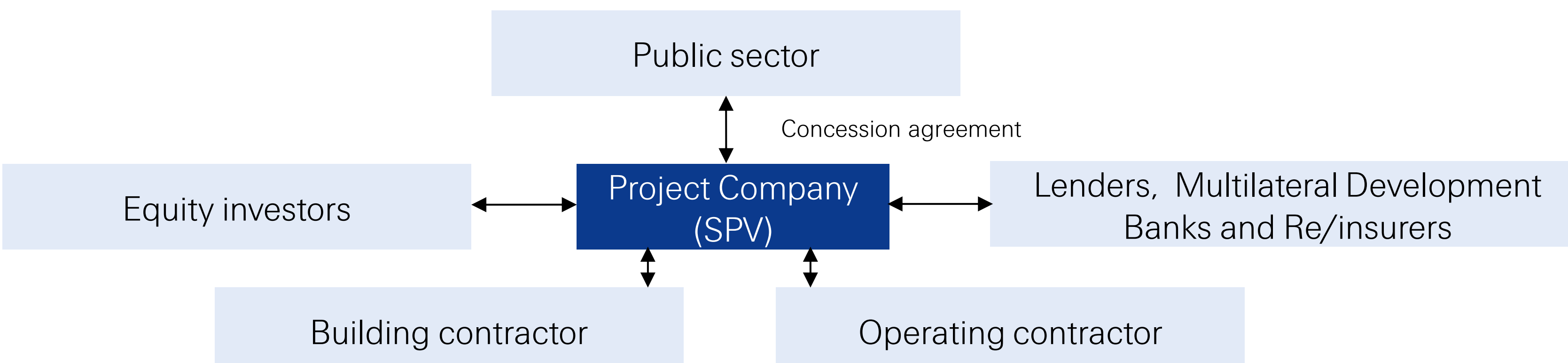
Idea

- **Public and private sector to combine resources to enhance and finance productive capacities**
- Make **project loans more accessible to capital markets**
- **Institutionalize the multilateral agency credit enhancement support**
- **Have a “best practice” benchmark transaction**

Key benefits

- **1:3 economic output multiplier***
- **Efficiency gains and well-designed risk-sharing**
- Contributes to **addressing the emerging global infrastructure financing gap**
- **Benchmark transaction to guide markets and help establish a tradable asset class**

Figure 1: Illustrative PPP structure



Swiss Re Source: Swiss Re

*A PPP that invests USD 1 in infrastructure would return USD 3 in GDP output in a low growth environment according to the IMF

To summarize: Three key points

1. Incentivizing the private sector is key: More standardization is needed
2. Implement a universally accepted template to standardize debt documentation and disclosure
3. A "best practices" benchmark Public-Private Partnerships transactions would help much

Appendix (I/IV): The Swiss Re "Wish List" on removing infrastructure investment obstacles

	Today's challenges	"Wish list"	Progress so far
Market view	▪ No standardisation, mostly non-marketable securities (bank loans) ▪ Resource intensive investments ▪ No benchmark ▪ Weak project pipeline	▪ Global tradable infrastructure debt asset class ▪ Standardised debt reporting and documentation, benchmarks ▪ Effective risk mitigation strategies, e.g. harmonised credit enhancements ▪ Bonds to be issued on a pool of projects, not on a deal-by-deal basis	▪ Recognition at national and supra-national level (i.e. G20) ▪ "Juncker Plan": Private sector involvement and standardisation element is missing
Policy view	▪ Punitive capital charges ▪ Weak investors' rights, political risks ▪ No commonly applied best practices	▪ Review regulatory capital charges and tax treatment ▪ Common dispute resolution practices ▪ Enhance information sharing/disclosure ▪ National governments and multilateral development banks to establish best practices together with the private sector	▪ Insurance regulator has adjusted Solvency II standard formula charges ▪ No progress on dispute resolution and information disclosure ▪ No application of best practices

Source: Swiss Re

Appendix (II/IV): Standardization would also provide a push to ESG investing

Our Swiss Re experience and process in integrating ESG:

Enhancement	Inclusion	Exclusion
Switch to broad-based ESG benchmarks focusing on higher ESG-rated investments	Focus on themes and create related mandates, such as green bonds, renewable or social infrastructure	Exclusions based on the internal Sustainable Risk Framework. Avoid investments related to thermal coal

Systematic integration of ESG considerations into investment process and portfolio

Mandate	Benchmark	Manager selection	Voting	Monitoring/ reporting

Our call for action (III/IV):
ESG investing is a must and should be supported with a comprehensive policy approach

Define sustainable investing

Establish consistent and standardized ESG reporting at company level

Integrate ESG consideration into the regulatory capital framework

Appendix (IV/IV): We want to shape the policy agenda to improve resilience

- **Long-term investors are key** for the **financial intermediation channel**, supporting **economic growth** and **financial stability**
- **Swiss Re actively contributes to the global financial policy dialogue to improve resilience**

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