



The U.S. Insurance Industry and Infrastructure Investments Request for Information

Background

The infrastructure in the U.S. is aging and in need of improvement and modernization — requiring a significant amount of capital and financing. U.S. insurance companies have participated in infrastructure investments as the long-dated terms match well with the long duration of their liabilities. But they have not been a leading provider of capital for infrastructure projects to date.

Statement of Intent

The NAIC Center for Insurance Policy and Research (CIPR) along with the Capital Markets Bureau (CMB) are collaborating on a research study aimed at discussing and clarifying topics surrounding infrastructure investments and determining the role of U.S. insurance companies as a source of infrastructure financing going forward. We are initiating the project with this Request for Information (RFI) which will serve as a springboard to set critical issues for discussion.

The purpose of the RFI is to gather information and input from market participants – including representatives from insurance companies, insurance trade associations, nationally recognized statistical rating organizations and other interested parties – to develop a better understanding of infrastructure investments and the dynamics of that market as it relates to the U.S. insurance industry as an institutional investor. The NAIC expects to publish this research paper in mid-2020, which will define infrastructure, gauge the market size, analyze its historical performance and examine its treatment by state insurance regulators.

Focus Topics

The research paper will cover two key overarching topics: infrastructure investment as an asset class and the insurance industry's participation in the infrastructure market including barriers and opportunities. The former section will discuss 1) the definition of infrastructure; 2) the investment characteristics of infrastructure; 3) the market size for infrastructure assets; and 4) the credit performance of infrastructure investments as an asset class; while the latter section will cover 5) the NAIC treatment of infrastructure assets; 6) the U.S. insurance industry's exposure to infrastructure investments; and 7) the role of insurance as an element of climate resiliency for infrastructure.

Specifically, the NAIC is requesting feedback and comments from market participants on the discussion topics as detailed below:

1) Definition of Infrastructure

A universal or standard definition for infrastructure investments is not available, and market participants can have differing views of which assets are considered infrastructure. However, a standard definition would be helpful to frame the discussion of infrastructure investments and how the U.S. insurance industry can participate going forward.

Based on the projects and facilities that the American Society of Civil Engineers (ASCE) considers infrastructure¹ and the categories described in the legislative outline of the Trump Administration's proposal to rebuild infrastructure in America², the following definition of "Infrastructure" is proposed for the purposes of this white paper:

"The framework and system of facilities needed for the operation of a country, state or region, including:

- Transportation – roads (streets and highways), bridges, tunnels, public transit, rail, airports, and maritime and inland waterway ports.
- Broadband (and other high-speed data and communication conduits) for rural communities.
- Telecommunications – wireless towers.
- Waste Management – wastewater, stormwater, solid waste, sewage, land revitalization and Brownfields.
- Power and Electric – generation, transmission and distribution facilities.
- Water and Water Resources – drinking water, flood risk management (dams and levees), water supply and waterways."

Information Request:

- Is the proposed definition of infrastructure reasonable?
- Are there specific items that should be included? Any that should be excluded?
- What are the dangers of an overly broad definition?

2) Investment Characteristics

Investments in infrastructure can be made through a variety of asset types, such as 1) corporate debt, 2) structured debt, 3) municipal debt and 4) equity.

Information Request:

- Are there additional asset types or structures through which one can invest in infrastructure assets?
- Are there any asset types that should be excluded?
- For equity, should we differentiate between direct purchases, joint ventures and private equity funds?

¹ <https://www.asce.org/issues-and-advocacy/public-policy/policy-statement-299---infrastructure-investment/>

² <https://www.whitehouse.gov/wp-content/uploads/2018/02/INFRASTRUCTURE-211.pdf>

3) Market Size

Determining the size of the market for infrastructure assets within each of the asset types described above might be difficult to ascertain with accuracy. The market does not typically view infrastructure investments as a separate and distinct asset class, and so they will likely be embedded in the statistics of other asset types.

Information Request:

- Is it possible to accurately determine the total market size for infrastructure investments? If so, what is the best method to do so?
- What sources are available to determine the market size?
- Can the size of the market be determined for each asset type (i.e. corporate debt, structured debt, municipal debt, and equity)?

4) Credit Performance

Market participants have posited that the credit performance (e.g. default rates and recovery rates) of infrastructure investments is superior to that of other investments of similar credit quality. A number of participants have pointed to Moody's "Default and Recovery Rates for Project Finance Bank Loans" studies which use a set of 7,052 anonymous bank loans. S&P recently released a similar report. Both have also published reports on the performance of corporate, municipal and structured infrastructure bonds.

Information Request:

- What data is available that provides reliable evidence for the historical credit performance of infrastructure investments?
- Given reliable evidence of the historical credit performance of infrastructure investments, do you expect evidence of superior performance to that of other investments as has been found in existing reports? Why or why not?
- Why might we expect various classes of infrastructure investment to perform similarly? Differently?
- Is the credit performance of corporate infrastructure different from municipal and structured infrastructure?
- Is the default performance of a single loan comparable to cohort-based average default statistics?
- Does the structure of the project or type of project impact the performance of the infrastructure investment?

5) NAIC Treatment of Infrastructure

Currently, the accounting treatment, the assignment of NAIC designations and the risk-based capital charges for infrastructure investments are the same as other like-rated debt and equity.

Information Request:

- What factors drive infrastructure investments?
- Is the regulatory treatment of infrastructure assets an impediment to investing in them?

- Should the regulatory treatment of infrastructure investments be different? If so, what change in treatment would you recommend and why?
- What can the NAIC do to properly align the credit performance of infrastructure per asset class (i.e. corporate, municipal and structured infrastructure) to the regulatory treatment?

6) Insurance Industry Exposure

The U.S. insurance industry's exposure to infrastructure investments will be provided in detail, depending on the ultimate definition of "infrastructure."

Information Request:

- Is it possible to accurately determine the U.S. insurance industry's exposure to infrastructure investments?
- What is the best methodology to accurately determine the industry's exposure?
- What is the U.S. insurance industry's exposure to infrastructure investments? Please describe the methodology for the exposure calculation, if different from above.
- Do you expect the credit performance of insurance industry exposure to be different than the market?

7) Climate Resiliency of Infrastructure Projects

The long-term nature of infrastructure investments coincides with many of the predicted future impacts from a changing climate. Insurance in this space can play the dual role of providing incentives for climate risk reduction efforts to be undertaken as part of the infrastructure investment as well as providing direct resilience of infrastructure through increased insurance uptake.

Information Request:

- Should future climate impacts be considered as an infrastructure investment criterion?
- Is there an existing methodology to incorporate climate as investment criterion?
- Should this also be included in the NAIC designation process?
- Would the lack of significant risk reduction action on climate impacts be a deterrent for insurers' investment in infrastructure in the near-term? Long-term?

Please send comment letters via email to Nikki Hall (CIPR Assistant Director, SHall@naic.org), and Michele Wong (Capital Markets Manager, MWong@naic.org) by Sept. 30, 2019.

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