Position Paper

Comments on the proposal for a European Fund for Strategic Investments

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Contact person:	Olav Jones, Deputy Director General	E-mail:	ecofin@insuranceeurope.eu
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Insurance Europe would like to take the opportunity to comment on the European Commission's (EC) proposal for a Regulation on the European Fund for Strategic Investments (EFSI).

Insurance Europe believes that the EC's Investment Plan has the potential to encourage more institutional investment, and therefore contribute to European growth in the coming years. Insurers are Europe's largest institutional investors, and had €8 500bn assets under management at the end of 2013[1]. Consequently, the availability of long-term attractive assets is crucial to preserving and further developing their role in the European economy. While the insurance industry has a significant investment potential, a combination of measures and actions are needed to turn the insurance industry's capacity into actual investment.

Therefore, in the context of the Investment Plan, the EFSI will be important in attracting investment to particular types of projects in need of public support. But, beyond the EFSI, the insurance sector strongly supports a pipeline of viable and attractive infrastructure investments that can be part of insurers' investment strategies and which bring portfolio diversification and yield.

Comments on the EFSI proposal

Firstly, Insurance Europe believes that public support should be directed to projects that would not otherwise receive private investment. From this perspective, Insurance Europe strongly supports the provision in **Recital 15**, which highlights that "the EFSI should only be used where financing is not available from other sources on reasonable terms". Insurance Europe believes that this message could be **further strengthened** by including an **additional provision**: "priority should be given to fully private financing of all projects in the pipeline, as a precondition for an assessment of EFSI support".

[1] Based on Insurance Europe data

Insurance Europe aisbl
Rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail : info@insuranceeurope.eu
www.insuranceeurope.eu

Secondly, Insurance Europe welcomes the condition in **Recital 22**, that "infrastructure and project investments supported under EFSI should be consistent with State aid rules". However, Insurance Europe believes that the "core principles for purposes of State aid assessments" identified in this recital should be subject to a stakeholder consultation before adoption by the EC.

In addition, with regards to the proposed governance of the EFSI, Insurance Europe has identified that the selection of projects for funding could be politically biased. In its view, this could be addressed by:

- The creation of a Strategic Advisory Committee composed of institutional investment experts, with proven expertise in the areas of infrastructure investing. The Strategic Advisory Committee should provide advice to the Steering Board and be involved in the selection of suitable projects for the EFSI, in particular in relation to the extent to which specific projects would not be fully fundable by private resources.
- Alternatively, at least three of the six independent experts of the Investment Committee (**Article 3**) should come from the private sector.

Regarding the evaluation and review of the EFSI, Insurance Europe supports the provisions defined in **Article 12**. Furthermore, Insurance Europe believes that, in order to further strengthen trust in the EFSI, an **additional requirement** should be that the EFSI is reviewed by an independent third party after a reasonable period of time. Such an evaluation should also include an assessment of the extent to which the EFSI may have crowded out private investment.

Lastly, given that the EFSI is established within the European Investment Bank (EIB), these issues should be addressed:

- There should be no risk of conflict of interests between the EFSI and the other operations of the EIB group, in particular as EFSI has no legal personality.
- The EIB should have enough capacity and resources to appropriately manage the EFSI.
- The relations between the EIB and other MDBs that would be involved in the EFSI should be well established.

General comments on an infrastructure pipeline in Europe

Insurance Europe believes that the involvement of EU authorities and public funds could have a significant positive impact on the success of an infrastructure pipeline in Europe. In order to achieve this, Insurance Europe would like to highlight the following:

- Public resources are best used when they are focused on taking risks that the private sector is not willing to take. This can help to increase the volume of investable projects and to achieve the EC's crowding-in objective.
- The role of Multilateral Development Banks (MDBs), such as the EIB, should be clearly defined:
  - Their involvement should be focused on projects that would otherwise not receive private investment.
  - The involvement of MDBs should not, however, crowd out private investment. There have been examples in the past where the involvement of sovereigns and/or MDBs has led to project yields that were no longer reflective of actual risks, making projects unattractive to the private sector.
- National governments should receive technical assistance to structure projects to a fundable status.
- Private sector investors (including insurers) should be involved in the governance bodies and expert groups.
- Infrastructure projects need to be economically viable.
- In terms of financing mechanisms, credit enhancement could be used, especially for higher-risk projects.

- The insurance industry is interested in investing in both infrastructure equity and debt. Structuring of projects should, therefore, take this into account and offer opportunities to private investors to invest in both. For example, in the case of a project that receives credit enhancement through an MDB, taking a first loss equity position, private investors should have the possibility to invest in the remaining equity portion, as well as in the debt portion of the project.
- The prudential treatment of infrastructure should be carefully reviewed and infrastructure should be defined as an asset class.

The industry is keen to contribute to achieve the right outcomes that would support the engagement of institutional investors, such as insurers, in the Juncker Investment Plan.