A UNIQUE ALLIANCE TO MEET PRUDENTIAL REQUIREMENTS FOR INFRASTRUCTURE

- Matthieu Poisson, **Amundi Energy Transition**
- Valéry Jost, **Forsides**

AMUNDI-FORSIDES: THE ANSWER TO PRUDENTIAL REQUIREMENTS FOR INSURERS

*A year ago, **Matthieu Poisson** introduced the Amundi-EDF partnership, aimed at helping Amundi Energy Transition funds select infrastructure-based investment projects. And now, in order to make the most of recent regulations, which provide the infrastructure sector with a significant advantage in terms of capital cost under Solvency II, a new kind of partnership has been established. Amundi and Forsides, an independent actuarial firm, have joined forces with a view to provide insurers with a robust process to comply with new prudential requirements on infrastructure. **Matthieu Poisson**, CEO of Amundi Energy Transition, and **Valéry Jost**, Partner at Forsides, explain.*

Tom Carr: It seems the EU wants to foster investment in infrastructure, but are insurers able to answer the call and take advantage of the related prudential benefits?
Matthieu Poisson: European insurers have shown their eagerness to move their money towards infrastructure-geared investment funds, in order to benefit from their advantageous 30% Solvency Capital Requirement (SCR) under Solvency II. However, the sector is under heavy pressure, especially due to capital influx, and this leads to a number of excesses, which causes insurers to worry. So it may now be somewhat difficult for traditional infrastructure funds to find investment opportunities. They have to move away from traditional infrastructures. Institutional investors fear these new investments will not meet the legal requirements needed for a SCR reduced to 30%.

Insurers find it all the more difficult to take advantage of the prudential benefits, as the conditions for their implementation are subject to interpretation, and as formally assessing them would be a very tedious task. This is precisely the reason for our partnership with Forsides, a team of professionals that can make sure our infrastructure investments are compliant with current regulations.

TC: How can you make sure regulatory requirements are actually met?
Valéry Jost: Infrastructure is a highly technical field, that mixes both pure engineering and financial technique. This makes it a hard market to access. Once you enter, however, there are investment opportunities, and our role, alongside Amundi, is to remove the barriers so that insurers can benefit from these opportunities.

In tangible terms, we have already performed a significant upstream job of analyzing the European regulation. We are now thoroughly looking at Amundi Energy Transition's investment projects to make sure they meet European requirements.

That puts Amundi Energy Transition in a position to provide insurance companies with a mutualized analysis of Solvency II criteria for infrastructure. This is something insurers usually do not have the internal resources to perform.

MP: Insurers must keep at the disposal of their supervisor proof of compliance to the relevant authority. Amundi Energy Transition helps them do just that, and we are, as far as we know, the only ones to offer such service. We have devised a series of tests and carry out diligence work for all our investments. The results are documented and help insurers answer supervisors. The only thing institutional investors still have to do is to perform their own diligence work, especially on the composition of their assets and liabilities. But this is something they are used to doing and they have the necessary expertise.

TC: How should infrastructure projects be built to benefit from a 30% SCR?
VJ: To be eligible for favourable prudential conditions, projects must come with a number of sustainability features and guarantees, aimed at protecting investors. They can be security arrangements or contractual clauses. There are, for instance, technical prescriptions, in order to ensure the completion of the infrastructure project. There can also be clauses aimed at securing a minimal amount of cash flow, in order to pay back the debt or to guarantee a minimal turnover. The idea is to shelter investors from fluctuations in revenues.

In addition, there can be operational requirements, in order to test a project's viability in extreme conditions, such as natural catastrophes or a severe downturn in the economy. These requirements are mainly a matter of common sense, but they all need to be analyzed.

Geography also counts. Eligible projects must be carried out in OECD countries. The same requirements apply in all countries: a heating network will be submitted to the same standards in France and in the Czech Republic.

Ultimately, however, the decision of applying a 30% SCR or not is the responsibility of the insurer under the national supervisor's oversight.

MP: Amundi Energy Transition has decided to go beyond what regulators demand and to commit to projects from beginning to end. On the one hand, insurers wish to reduce their exposure to an investment model that relies on asset trading. On the other hand, current regulations require them to hold infrastructure-related debt to maturity, but not for equities. But we meet more and more insurers that believe infrastructure-related equities also have an investment horizon that corresponds to the project's lifecycle, usually between 15 and 25 years.

TC: Is a low capital cost the only reason why insurers should be interested in infrastructure?
MP: Owing to a number of specificities, regulators do assess infrastructure-related risks more favourably than they do for other assets. Thanks to protection in terms of regulations, volumes or costs, infrastructure generates more secure cash flow than other assets. This attractive risk profile is the reason for preferential prudential standards.

VJ: European investors today are seeking returns in a low rate environment and with a diminishing risk budget. In this context, infrastructures may provide a different kind of alternative, no longer based on balancing risk and yield, but rather on an arbitration between return and liquidity. This is highly relevant for insurers, as a part of their liabilities which are rather illiquid. So, in reasonable proportions, they can integrate more low-liquidity assets into their portfolio, and this will help them reach their target level of return.

TC: How does the partnership between Amundi Energy Transition and EDF also help meet the requirements of Solvency II?
MP: As we mentioned, insurers are worried that the infrastructure projects selected by investment funds may not actually fit the regulator's very definition of infrastructure. Partnering with such an industrial expert guarantees our access to energy-related infrastructure projects, and provides diversification to our investments portfolio.

This allows us for example to invest in projects worth €10-15mn each, which are far smaller than common infrastructure projects. So our investments are truly diversified, and we have access to assets that do not face tough competition and are not subject to excessive speculation. Such an approach reduces our portfolio's exposure to risks. This unique sourcing strategy helps us select infrastructure projects that meet prudential requirements.

Amundi Energy Transition thus benefits from dual, but complementary, sets of expertise in the industry sector and in the field of regulations.

AMUNDI ENERGY TRANSITION
Amundi is Europe's largest asset manager by assets under management and ranks in the top 10[1] globally. Following the integration of Pioneer Investments, it now manages over €1.3tn of assets[2] across six investment hubs based in 37 countries. In 2016, Amundi launched a platform dedicated to real and alternative assets to provide easier access to unlisted investments. Bringing together capabilities in real estate, private debt, private equity, and infrastructure (green energy), this platform has a headcount of 200 people for AuM of €38bn[3], and offers solutions through direct funds, club deals, and multi-management, including two innovative and ambitious partnerships with EDF and CEA.

Within this platform, Amundi Energy Transition (AET) is an asset manager that is jointly owned with EDF, the world's largest electrical company and the leading producer of green energy. AET leverages an innovative business model that allows for the structuration of diversified infrastructure assets on several segments of the energy transition market.

MATTHIEU POISSON
Matthieu Poisson is the CEO of AET (Amundi Energy Transition), the newly created joint venture between Electricité de France (EDF) and Amundi in energy transition financing. Previously, Matthieu Poisson was working for EDF, one of the world's largest electrical companies (€73bn sales, 38.5 million customers, 623TWh annual production, 28.3GW of renewable assets in operation).

real-assets.amundi.com

FORSIDES
Forsides is a consulting firm with operations in France, Belgium and Luxembourg which provides comprehensive actuarial solutions that combine:

- Business oriented monitoring of insurance regulations, both in France and Europe
- Broadly-recognized prudential and technical expertise
- Expertise in project management

VALÉRY JOST
Valéry joined Forsides in 2015 as Partner. Valéry, PhD, is graduated of Ecole Normale Supérieure and of the Ponts et Chaussées engineering school. He is also Vice-President of the French institute of actuaries since 2016.

www.forsides.fr

[1]Source IPE "Top 400 asset managers" published in June 2017 and based on AUM as of end December 2016.
[2]Data combined for Amundi and Pioneer Investments at 30/06/2017 prior to harmonisation of accounting methods for AuM.
[3]Figures as of 30 September 2017.