At a glance: Further reliefs for infrastructure capital charges under Solvency II standard formula

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What’s new

• The Commission has published amendments to the delegated acts to introduce further reliefs in respect of the capital charges on infrastructure investments in the calculation of the standard formula Solvency Capital Requirement (SCR).
• A new category of ‘qualifying infrastructure corporate investments’ will now benefit from lower equity risk and spread risk charges.
• Relaxation of some of the conditions for infrastructure project investments to be eligible for existing reduced capital charges.

What does this mean?

• New category of qualifying infrastructure corporate investments is introduced with an equity stress of 36% (compared with 30% for Type 1 equities) and a spread risk charge generally around 75% of that applying to other bonds and loans. Several qualifying criteria such as majority of revenues derived from infrastructure assets, assets based in EEA or OECD, and security on source and type of revenues.
• Some relaxations to definition and qualifying criteria (e.g. regarding legal structure and security arrangements) for investments in infrastructure projects to qualify for the existing reductions in capital charges (e.g. a 30% charge for equity and spread risk charges generally about 70% of those applying to other bonds and loans).

Next steps

• EU Parliament and Council have a period of three months to scrutinise the amendments (can be extended by a further three months).
• Subject to no objections being raised, we expect the amendments to be effective soon after period of scrutiny is over, most likely before December 2017.

What do insurers need to do?

• Those calculating their SCR using standard formula should understand the impact of these amendments on their investment profiles.
• Consider reviewing the investment strategy in light of the amendments.
• Identify investment opportunities that might have become more attractive as a result of changes.

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