Preface

Infrastructure investments are frequently characterized as long-term investments generating stable cash flows, offering a good diversification potential as well as a sound protection against inflation. These attributes indeed might be very attractive for some institutional investors like insurance companies, as they promise a potential escape from the rising threats of the prevailing low-interest rate trap.

Furthermore, Solvency II as the new regulation regime for the European insurance industry also exerts a strong influence on the investment decisions of insurance companies, forcing them to generally narrow the industry´s typical duration gap. Since long-term sovereign bonds are currently not able to realize adequate returns, an investment in unlisted infrastructure equity can be a promising approach for realizing sufficient returns while contributing to a better duration matching of assets and liabilities.

However, resulting from the immaturity and heterogeneity of the entire infrastructure asset class in conjunction with the prevailing lack of market data, the current literature does not provide clear evidence about a generalized definition of infrastructure assets, their typical characteristics or their risk-return profiles on an aggregated level. Moreover, there is still a considerable uncertainty about the future shape of the infrastructure sector, particularly in the context of changing economic and social demands for infrastructure assets and the interdependency between public and private financing.

From an investor-oriented view, the performance of an insurance company´s portfolio investing in an usually illiquid asset like unlisted infrastructure equity, the asset´s contribution to the portfolio´s overall riskiness and the question of the portfolio´s optimal asset allocation under solvency requirements is not yet clear. With regard to regulatory policy, the appropriateness of the corresponding capital requirements to cover potential losses stemming from such infrastructure assets is still questionable.

Therefore, this book aims to shed some light on the appropriateness of the current regulatory treatment and the general suitability of unlisted infrastructure equity investments for the investment purposes of insurance companies. Due to the ongoing debates about this topic among supervisors, politicians, researchers and investors, the book comprises insights up to the middle of the year 2016. In the context of this publication, I want to thank everyone who supported me during my studies and the preparation of my master’s thesis. I am particularly grateful to Prof. Dr. Helmut Gründl as the supervisor of my thesis and to the team of the International Center for Insurance Regulation (ICIR), whose research interest in insurance and insurance regulation made it possible for me to work on the important and contemporary topic of infrastructure investments in the insurance sector.

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