NIKKEI ASIAN REVIEW

Insurers help to pay for Asia's infrastructure needs

Cash-strapped governments are raising money for projects with long-term debt

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Date: 23 March 2017
Media Source: Nikkei (Asian Review)
Website link: http://asia.nikkei.com/magazine/20170323/On-the-Cover/Insurers-help-to-pay-for-Asia-s-infrastructure-needs

A bond issue backed by the Asian Development Bank is helping to pay for upgrades to geothermal power plants on the Philippine island of Luzon. (Courtesy of AP Renewables Inc.)

BANGKOK A recent $150 million refurbishment of two decades-old geothermal power plants on the Philippine island of Luzon may sound like just another project aimed at overcoming the country's severe electricity shortages. But, for Asia's insurance companies, there is more to it.

Bonds issued to pay for the upgrades and future operation costs, worth 10.7 billion pesos ($213 million), were backed by the Asian Development Bank -- the first such project bonds issued in Southeast Asia, excluding Malaysia, since the 1997 Asian financial crisis.

Investors see infrastructure projects as risky, especially green-field assets that take a long time to bear fruit. But credit enhancement -- backing by a multilateral lender, for example -- helps reduce the risk of default, encouraging institutional investors such as insurance companies and pension funds to put money into them.

"This could be a role model for infrastructure financing in Asia by insurance companies," said Kiyoshi Nishimura, chief executive of Credit Guarantee and Investment Facility, a credit guarantor set up by the Association of Southeast Asian Nations governments plus Japan, South Korea and China. Manila-based CGIF is also backing the Philippine power plant debt, called Tiwi and MakBan Geothermal Power Green Bonds.

The bonds for the Tiwi-MakBan power stations were initially purchased by the Bank of the Philippine Islands. The bank is in discussions to sell off some of the debt to insurance companies, mainly local units of multinational insurers with experience of investing in project bonds in Western markets.

MATCH MADE IN HEAVEN Insurance companies, particularly life insurers, have long investment horizons. That makes them a good match for those with long-term financing needs, such as governments hoping to raise cash for roads, bridges, power plants and the like. Emerging economies in Asia, which have both huge infrastructure demand and a chronic shortage of capital, are banking on help from the private sector.

A recent report from the ADB suggested that emerging Asia needs to invest $26.2 trillion in infrastructure projects, from power generation to transportation, by 2030 to maintain economic growth. Roughly half of that needs to be covered by the private sector, up from the current contributions of an estimated 30%.

"The ASEAN insurance industry, with its stable and long-term financial assets and commitment, can certainly play a greater role in supporting and sustaining our region's economic growth as a whole," Evelina Pietruschka, secretary-general of the ASEAN Insurance Council, told an industry conference last November.

Banks have traditionally been the primary source of cash for such projects. However, stricter capital requirements under the Basel III rules put in place after the global financial crisis have made it harder for banks to make such long-term bets. The regulations, aimed mainly at G-20 countries, are being adopted voluntarily by some emerging economies in Asia, such as the Philippines and Thailand.

Insurance companies, on the other hand, are increasingly hungry for stable, long-term investments as sales of longer maturity life insurance products grow in the region.

A skytrain passes over vehicles on a road in Bangkok. © Reuters

Bangkok Life Assurance, a leading Thai insurer, for example, holds 6.87% of the investment units in the BTS Rail Mass Transit Growth Infrastructure Fund, a listed mutual fund that invests in the Thai capital's two big elevated rail lines. The company is hoping to increase its exposure to infrastructure, "but there are not many [bond] issues coming out," said Sanor Thampipattanakul, senior executive vice president of Bangkok Life's investment division.

BARE TOOLBOX Despite the growing appetite for investment, Asia still lacks crucial financial instruments. Malaysia has a liquid debt market for infrastructure that includes project bonds and Islamic bonds, but most of the region remains underdeveloped when it comes to financing.

In poorer countries, such as Cambodia and Myanmar, there are no effective securities markets at all, which makes it difficult for governments and construction companies to raise long-term funds.

But change is coming. Insurance money could foster infrastructure development in the region, and governments are trying to get funds flowing.

The Indonesian Financial Services Authority, for example, issued regulations last year requiring insurers to put at least 20-30% of their investments into government bonds, including those issued by state-owned companies to pay for infrastructure projects. Authorities estimate this could bring in at least 320 trillion rupiah ($23.9 billion).

In India, the government raised the limit on insurance companies' investments in infrastructure funds from 10% to 20%. Philippine President Rodrigo Duterte hopes to tap new funding sources to pay for infrastructure, and wants to create a framework to facilitate insurers' investment in public-private projects.

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