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Best's Briefing: Worst-Case Scenario on Puerto Rico Power Utility Debt Likely Still Within Insurers' Risk Appetites.

OLDWICK, N.J.–(BUSINESS WIRE)–The proposed restructuring of the bankrupt Puerto Rico Electric Power Authority (PREPA) would not significantly impact A.M. Best-rated insurers as the vast majority have minimal exposure to their capital and surplus from PREPA bonds, according to a new A.M. Best briefing.

The Best's Briefing, "PREPA: Worst-Case Scenario May Still Be Within Insurers' Risk Appetite," states that the insurance industry has reported a fairly dramatic decline in PREPA holdings' book adjusted/carrying value over the last five years, dropping 62% since 2012 to $147.1 billion. The decline has been a combination of devaluation as well as unloading the bonds, as the number of holdings has dropped by half among insurers since 2012 to roughly 750 in 2016. PREPA bonds have fared a little better than Puerto Rico municipal bonds, which declined 68% since 2012.

The plan to privatize parts of the bankrupt PREPA over the next 18 months comes after Puerto Rico's legislature passed an emergency funding measure in late January 2018 to ensure the struggling utility can maintain operations. The insurance industry holds just 2% of PREPA's $8.2 billion in public debt outstanding.

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