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Muni Market Looks to Taiwan Where Insurers Welcome New Options.

- **Taiwanese life insurers can now buy U.S. muni revenue bonds**
- **Move may further boost already-record foreign muni ownership**

The \$3.8 trillion municipal bond market is so U.S. investor focused, radio commercials for New York commuters tout local bonds. But now, insurance companies from Taiwan are also paying attention.

In November, Taiwanese regulators said the country's domestic life insurers could buy U.S. municipal revenue bonds. Previously, the companies could only invest in general-obligation debt. More than 60 percent of new long-term munis sold this year was backed by revenue streams, according to data compiled by Bloomberg.

The move could further boost foreign holdings of municipal bonds, which once held little allure overseas because they often yield lower than other investments. But amid low and even negative yields on global bonds, foreigners owned a record \$106 billion by the end of September, more than twice the amount they did in 2008, according to Federal Reserve Board data.

"The broader investment guidelines pave the way for Taiwanese insurance accounts to play a more active role in the U.S. municipal market," said Glenn McGowan, director of municipal underwriting at RBC Capital Markets, in an email. Their participation will depend on market conditions, comparative interest rates, and currency-hedging costs, he said.

"Of course we will try to invest in this new product," said Abel Lin, managing senior executive vice president of Cathay Life Insurance, by phone. "The opening means an extra option for us."

Lin said a team will evaluate the securities and determine if the "return and risk management falls in our comfort zone."

Revenue bonds from active issuers, and those that are frequently traded and with ratings in the A category or higher are likely to be the focus of Taiwanese insurers, McGowan said. Specifically, they may prefer taxable munis sold by essential service providers such as utilities, nonprofit hospitals and higher-education institutions, said Matt Caggiano, who helps oversee more than \$7 billion of municipal holdings mostly for insurance clients at DWS Group.

At the moment, though, the math isn't working, Caggiano said. "A lot of the companies are saying the hedging costs have increased," he said by telephone. Their target returns "just aren't available for the most part."

Taiwan's life insurance companies have NT\$23.6 trillion total amount of capital invested by the end of October. Of it, about 69 percent is invested in foreign currency-denominated assets, according to the Taiwan Insurance Institute.

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