Bond Case Briefs

Municipal Finance Law Since 1971

A.M. Best Briefing: Infrastructure Bond Program Could Widen Insurers' Investment Choices.

OLDWICK, N.J.–(BUSINESS WIRE)– A.M. Best has released a Best's Briefing providing its view on Qualified Public Infrastructure Bonds (QPIB), a new kind of municipal bond proposed by President Barack Obama to spur public/private partnerships for infrastructure projects. The briefing is titled, "Infrastructure Bond Program Could Widen Insurers' Investment Choices."

While the project is still in the early stages, with minimal details set and authorization still needed from Congress, the new bonds may provide an additional source of potential investments in a time when after-tax yield is difficult to find and the overall supply of municipal bonds is declining. Despite very low interest rates, municipalities have reduced their bonds outstanding for three consecutive years from 2010-2013. Consecutive declines in the number of outstanding municipal bonds have not occurred since the mid-1990s, according to the Securities Industry and Financial Markets Association.

The insurance industry as a whole has been a large investor in traditional municipal bonds, with holdings of more than $500 billion in assets representing 13.6% of the total municipal bond market, edging out banks' holdings of approximately $446 billion. Within the insurance industry, the property/casualty (P/C) segment is the largest investor in municipal bonds with more than $332 billion in these instruments, followed by the life/annuity (L/A) segment with $148 billion. As a percentage of invested assets (2013), municipal bond holdings represent approximately 22% of the P/C segment and 4% of the L/A segment.

Within the municipal bond asset class, the insurance industry has more than 61% of its investments in revenue bonds, according to figures from the National Association of Insurance Commissioners. This is despite general obligation bonds representing almost 80% of the entire municipal bond market.

The QPIB program, part of the Build America Investment Initiative announced by the president on Jan. 16, 2015, would extend the capital-raising capabilities of local municipalities to public/private partnerships and aim to stimulate private-sector investment into public infrastructure. The QPIB proposal would not have a private business usage test, which means projects such as airports, solid waste and mass-transit contracts could be issued to private companies under long-term leasing and management contracts as long as the municipality maintains ownership. While a similar program existed called the qualified Private Activity Bond program, this new QPIB program will differ by the previously mentioned features of no expiration date, no issuance caps and exemption from the alternative minimum tax for interest on these bonds.

A.M. Best will continue to monitor the new potential QPIB investment opportunity and what effect, if any, it may have on the insurance industry's universe of investable assets. However, given the information provided so far, A.M. Best believes QPIBs will provide an overall benefit to the industry.

Feb. 3. 2015