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The Potential Impact of COVID-19 to Municipal Bonds Held by Insurers

Analyst: Tim Nauheimer

Executive Summary

- Municipal bonds (Munis) make up a significant portion of property/casualty (P/C) insurersʼ cash and invested assets (13% or $272 billion as of Dec. 31, 2019).
- Munis make up $492.6 billion or 7% of total U.S. insurersʼ cash and invested assets.
- More at-risk special revenue bonds make up 6% of P/C insurersʼ invested assets.
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make up 13% or $272 billion of P/C ʻyãdzǈŜǈăʼ cash and invested assets and $492.6 billion or 7% of all insurersʼ cash and invested assets as of year-end 2019 (see Table 1). Special revenue bonds backed by airport and toll road revenues and revenues from travel and tourism-related activities are most at risk. Special revenue bonds make up 6% of P/C insurersʼ cash and invested assets. Related activities and dedicated taxes that are travel-dependent, such as hotel tax and sales tax in tourist-driven economies, as well as mass transportation systems that are reliant on user fees, will lead to reduced revenues for municipalities.

Table 1: Year-End 2019 Municipal Bond Holdings by Industry Type
(BACV, in $millions)

Moodyʼs Investors Service ʻa ƻƻŘèʼăʻ revised its Public Finance sector outlook to negative from stable for airports, toll roads, not-for-profit and public healthcare, and higher education on March 20.[1] Standard & tƻƻǈʼă ʻS&P) revised its Public Finance sector outlook to negative for all sectors on April 1. Munis tied to these and other revenue sectors anticipated to be affected total $71 billion for P/C insurers or $126.6 billion across the U.S. insurance industry (see Table 2).

1 -depth report, March 20, 2020.

Table 2: Year-End 2019 Municipal Bond Holdings Associated with Potentially Disrupted Revenue Streams (BACV, in $millions)

Other COVID-19 economic factors putting a strain on municipal revenues include the significant state expenditures on emergency healthcare to fight the virus and decreased tax revenue. Closed businesses, less drr864 drr864 drr864 drr864 drr864 drr864 drr881 0 0 1 72.025 331.48 G0.00000912 pc25 33gh.17 Tm612 79pcssoci

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