

U.S. Insurance Industry Exposure to Argentine Sovereign Debt is Small as Default is Possible (7/30/14)

Argentina is at risk of defaulting on interest payments due today, July 30, on \$13 billion in sovereign debt maturing in 2033. The default is expected to occur because of a ruling by the U.S. District Court, which blocked the country's attempt to transfer \$539 million in interest on the 2033 bonds to investors because it did not set aside amounts owed to "holdout" creditors related to Argentina's previous 2001 debt default.

Argentina, the third-largest Latin American economy, last defaulted on \$95 billion in sovereign debt in 2001, most of which was swapped for new bonds in 2005 and 2010. Investors took a 70% loss on the principal, but 7% of the holders (the "holdout" creditors, or hedge funds) rejected the restructuring terms and won a U.S. District Court ruling to reclaim 100% of all principal and unpaid interest. July 30 is the last day of a 30-day grace period for Argentina to pay interest due on the 2033 bonds. Based on default provisions in the bond indenture, a default on the interest payments could trigger a cross-default clause that allows other investors to demand return of the principal and unpaid interest immediately (provided, however, that holders of at least 25% of the debt demanded their money returned).

Argentine government officials and the holdout creditors are in talks today aimed at avoiding default, which could occur if Argentine President Cristina Fernández de Kirchner either agreed to settle the suit filed by the creditors, compensate them in full, or obtain a delay on the U.S. court ruling that prohibits Argentina from servicing the 2033 debt before paying the holdout creditors.

As of July 29, and according to Bloomberg, the bonds due in 2033 were trading at 82% of par, which was above their 74% of par average for the past five years. The morning of July 30, the bonds were trading at 92.2% of par. In addition, average yields on Argentine debt were 9.7% as of July 28.

As of year-end 2013, the U.S. insurance industry had a modest exposure to Argentine debt, at \$172 million, 73% of which was sovereign debt. Within this sovereign debt exposure, approximately \$56 million was in the bonds maturing in 2033. In addition, the industry had approximately \$15 million in exposure to Argentine equities. The long-term sovereign debt ratings for Argentina are currently CCC-/Caa1/CC by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The NAIC Capital Markets Bureau will continue to monitor events within this region and report as deemed appropriate regarding any potential impacts to the U.S. insurance industry's investments.