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Introduction

Chairwoman Capito, Ranking Member Maloney, members of the Committee, my name is Bill Wheeler and I am the President of the Americas Division at MetLife. Thank you for the opportunity to testify on behalf of MetLife.

MetLife recognizes the importance of managing systemic risk and the need for sensible regulations to protect taxpayers from costly bailouts. Coming up with the appropriate regulatory formula will not be easy – either for the Financial Stability Oversight Council in designating nonbanking firms as systemically important, or for the Federal Reserve in determining the prudential standards to be applied to those firms. Nevertheless, we must get the prescription right: The stakes are too high to allow the costs or the benefits of regulation to be miscalculated. Striking the right balance is a large part of the challenge to ensure that we capture the benefits of regulation without imposing unnecessarily burdensome costs.

By way of background, I was named President of the Americas for MetLife late last year, after serving for roughly eight years as the company's Chief Financial Officer.

As you may know, MetLife is the largest life insurance company in the United States. We are the only one that is also a bank holding company. Our experience as an insurance company regulated by the Federal Reserve has provided us with unique insight into the pitfalls of applying bank-centric rules to non-bank financial companies. Indeed, it is because we do not believe our insurance business should be governed by regulations written for banks that we have decided to sell our depository business. Through this sale, MetLife will cease being a bank holding company and join its peers in being regulated as an insurance company.

I plan to discuss three topics in my testimony today.

- First, why regulated insurance activities generally do not pose systemic risk.
- Second, why naming only a few insurance companies as Systemically Important Financial Institutions ("SIFIs") would needlessly upset the competitive landscape in the insurance sector.
- Third, in the event that we are named a non-bank SIFI, why the prudential regulations must be tailored to our unique asset and liability characteristics.

True Systemic Risk

One of the principal purposes of the Dodd-Frank Act is, quote, "to protect the American taxpayer by ending bailouts." The failure of a financial firm, by itself, is not sufficient grounds for heightened regulation for systemic risk. Only when such a failure would "threaten the stability of the financial system of the United States" is additional regulation warranted.

Far from presenting systemic risk to the U.S. economy, traditional life insurance activities are a force for financial stability. Life insurance companies protect policyholders and their beneficiaries from the loss of income that occurs as a result of death, disability or retirement. In order to make good on these promises, we invest hundreds of billions of dollars in primarily investment grade fixed-income securities that provide us with reliable returns. At a time of increasing budgetary strain on governmental social insurance and transfer programs, it is becoming more important than ever that insurers be able to offer financial protection that is attractively priced.

Insurance company financial distress occurs far less frequently than bank distress. As of mid-2009, only three insurance companies had received taxpayer assistance through the Troubled Asset Relief Program, compared with 592 banks.[1] Quite frankly, I do not believe TARP money needed to be provided to at least two of these insurers to prevent any sort of systemic event. The asset and liability structures of insurance companies and banks are dramatically different. Banks generally borrow funds short term and invest long term, creating maturity mismatches than can lead to liquidity crises and runs on the bank. Insurance companies tend to make long-term promises to policyholders and invest in long-term fixed-income securities, better matching assets and liabilities and posing less liquidity risk. Unlike banks, insurers generally have a stable portfolio of in-force insurance policies with regular premium payments and contractual features that prohibit or limit early calls by policyholders, such as surrender charges or tax penalties.

"From that essential difference flows the reason why integrated regulators tend in a crisis to sleep easier at night about their insurance company charges than about their banks," according to Adair Turner, chairman of the United Kingdom's Financial Services Authority, which oversees both insurers and

[1] "Systemic Risk in Insurance: An Analysis of Insurance and Financial Stability," The Geneva Association, March 2010

banks.[2] Similarly, in a detailed analysis of insurance and financial stability, the International Association of Insurance Supervisors concluded that "for most lines of business, there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy." [3]

Rather than designate a handful of insurance companies as SIFIs and design a whole new set of prudential standards for them, a more sensible approach would be to identify and regulate those activities that fueled the financial crisis in the first place. In fact, Senator Dodd expressed a similar view in an exchange with Senator Collins prior to the Senate vote in favor of the Dodd-Frank Act.[4]

During the crisis, certain firms that expanded significantly into non-traditional and non-insurance activities suffered significant distress. Indeed, the main reason insurance companies are even part of the discussion about systemic risk is because of AIG. Yet AIG's troubles did not stem from traditional insurance activities operated within a regulated insurance company. As Dodd-Frank recognized, the Office of Thrift Supervision did not appropriately regulate the activities of AIG Financial Products. AIG experienced significant losses due to credit default swaps on securities backed by sub-prime mortgages, as well as from securities lending activities where proceeds were invested in risky real estate securities. With the fall in the housing market and overall credit crisis, counterparties required additional collateral to be posted, straining AIG's capital

[2] Speech by Adair Turner before the International Association of Insurance Supervisors, October 2010
[3] "Insurance and Financial Stability," International Association of Insurance Supervisors, November 2011
[4] Discussion of Section 113 – Designation of Insurance Companies as Nonbank Financial Companies, Congressional Record 156:105 (July 15, 2010), p. S5902.

and liquidity positions. Insurance law and insurance regulators would not have permitted these activities to occur in the same manner within a regulated insurance company.

The relevant question to ask of MetLife is: Would the failure of our company “threaten the financial stability of the United States”? We believe the answer is no. We cannot think of a single firm that would be brought down by its exposure to MetLife.

Picking Winners and Losers

If FSOC names only certain insurance companies as SIFIs, it will inadvertently be picking winners and losers in the insurance sector. The marketplace is very competitive today. Innovation and growth in market share can and does come from companies both big and small.

Some commentators believe that naming MetLife and other large life insurance companies as SIFIs would give us a competitive advantage over our smaller rivals. A SIFI designation would be the federal government’s signal that we are indeed “too big too fail,” and that if we got into financial trouble, federal funds would be used to rescue the firm. The implicit backing of the federal government could strengthen perceptions of our creditworthiness and may give us a significantly cheaper cost of funds than our peers.

Similarly, these commentators believe the Federal Reserve would have a powerful incentive to ensure the financial success of those insurance companies under its supervision.

At the other end are those who believe that insurance companies deemed SIFIs would be placed at a competitive disadvantage. They would have to hold more capital and maintain higher liquidity levels, which would reduce returns on equity for shareholders and impose higher prices on customers. In addition, they would have to deal with two levels of regulation compared with one for the rest of the industry.

I am in the second camp, having lived with Federal Reserve regulation and been forced to stand on the sideline as nearly all of MetLife's competitors – including those that took federal bailouts – returned capital to shareholders while bank-centric rules prevented us from doing so. But whether a SIFI designation is a help or a hindrance, it seems certain that naming a handful of insurance companies as "too big to fail" will needlessly distort the competitive landscape and misallocate capital in the insurance sector.

Getting the Rules Right

In the event FSOC feels compelled to name MetLife and a few other large insurers as SIFIs, it will be essential to tailor the new prudential rules for insurance companies. Bank-centric regulations are wholly inappropriate for an insurance company.

I would prefer that federal regulators simply adopt the risk-based capital rules that state insurance regulators have been using successfully for decades, but this may not happen based on the proposed prudential standards rule issued by the Federal Reserve in December of last year. As a second-best option, I hope any bank-centric rules used will be modified to take into account the unique asset and liability characteristics of life insurers.

Conclusion

If the nation's largest life insurers are named SIFIs and subjected to unmodified bank-style capital and liquidity rules, our ability to issue guarantees would be severely constrained at a time when governments are facing their own fiscal challenges. Faced with costly requirements, insurers would either have to raise the price of the products they offer, reduce the amount of risk they take on, or stop offering certain products altogether.

In closing, let me reiterate that I do not believe MetLife is or should be designated "too big to fail." Even in the event of insolvency, we would not "threaten the stability of the financial system of the United States." Naming only a few large insurance companies as SIFIs is an unsettling thought – it would needlessly upset the competitive landscape in the insurance sector and possibly discourage these large insurance companies from offering the insurance products average Americans rely upon as part of their financial planning. I cannot tell from reading the FSOC's SIFI criteria regulation the exact metrics that will be used in designating nonbank financial companies as SIFIs, so it is hard to predict outcomes. If FSOC names the largest life insurers as SIFIs, I believe it will be imperative for regulators to get the prudential rules for non-bank SIFIs right. At the very least, they should regulate insurance companies as insurers, not as banks.

Thank you.

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