Meeting Between Staff of the Federal Reserve System and Representatives of Northwestern Mutual Life Insurance Company
February 20, 2024

Participants: Celso Brunetti, Nathan Foley-Fisher, Andrew Hartlage, Lara Lylozian, and Stephane Verani (Federal Reserve Board)

Ralf Meisenzahl (Federal Reserve Bank of Chicago)

Tim Finnie, Christopher Gahan, and Andy Vedder (Northwestern Mutual Life Insurance Company)

Summary: Staff of the Federal Reserve Board and the Federal Reserve Bank of Chicago met with representatives of Northwestern Mutual Life Insurance Company (Northwestern Mutual) to discuss items regarding Northwestern Mutual. Representatives of Northwestern Mutual also raised the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal). Representatives of Northwestern Mutual shared their views related to the proposed credit risk capital requirements under the Basel III endgame proposal and provided staff with written comments.

Attachment

January 16, 2024

Filed electronically via https://regulations.gov/

Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity

Docket ID OCC-2023-0008

Dear Acting Comptroller Hsu:

Guardian Life Insurance Company of America, Massachusetts Mutual Life Insurance Company, Nationwide Mutual Insurance Company, New York Life Insurance Company, Northwestern Mutual Life Insurance Company, Securian Financial Group, Inc., TruStage Financial Group, and Western & Southern Financial Group (together, "we," "our," or "us") are submitting this letter in response to the request for public comment by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation for their Notice for Proposed Rulemaking ("proposal") entitled "Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity."

We are writing to express our strong concerns about the proposal's corporate exposures provision for credit risk that requires a company to have publicly traded securities outstanding to receive a lower risk weight. Questions 38 through 41 of the proposal relate to this provision. For banking exposures to companies in our industry, this provision creates an arbitrary, unjustified distinction between publicly traded companies and companies with different ownership structures, including mutual companies that are life insurers themselves, mutual holding companies, or mutual property and casualty insurers that have a non-publicly traded life insurer(s) in their ownership structure ("Mutual Insurers"). To assign a significantly higher risk weight for corporate exposures to a certain cohort of life insurers (including investment grade companies) solely because they do not have publicly traded securities outstanding fails to recognize the highly regulated environment that all life insurance companies operate in, the enhanced transparency of all companies in our industry, the exceptional financial strength of Mutual Insurers, and the negative impact such a policy change would have on the banking system.

Looking at credit ratings and other key financial strength metrics, Mutual Insurers are some of the most creditworthy companies in the country. Currently, 7 out of the 10 highest rated insurance companies in the bank-owned life insurance market are non-public companies[1]. To assign a risk weight for corporate exposures to such companies that is over 50% higher than for publicly traded life insurers (100% vs. 65%) simply because of a different ownership structure clearly does not – as the proposal purports – "identify exposures to obligors of sufficient creditworthiness to be eligible for a reduced risk weight." This proposal would have the unintended consequence of banks favoring less creditworthy insurance companies.

Although we appreciate the proposal's desire for a simple, objective criterion, the proposal's discrimination against non-publicly traded life insurers is wholly without merit and is inconsistent with the implementation of Basel III Endgame in other jurisdictions such as the United Kingdom and European Union. If this criterion is maintained, the proposal would be arbitrarily punitive to the longstanding Mutual Insurer business model that has served policyholders well for over a century and a half and closely aligns the interests of life insurers with their customers. Moreover, in its current form the proposal would significantly disrupt the bank-owned life insurance (BOLI) market and negatively impact banks and their employees, as described more fully herein.

Question 39 in the proposal asked whether corporate exposures to "highly regulated" companies that are not publicly traded – including mutual insurance companies – should receive a lower risk weight. For the reasons outlined in this letter, we strongly believe that investment-grade Mutual Insurers should not be subjected to a higher credit risk charge as compared to their publicly traded competitors. We respectfully ask that the proposal's corporate exposures provision be revised so that, as it pertains to the insurance industry, it does not use publicly traded securities as a criterion for a reduced risk weight. More specifically, we request that corporate exposures to all investment grade insurers – whether publicly traded or Mutual Insurers – receive a risk weight that is no higher than 65%.

I. All U.S. Insurers Are Highly Regulated To Help Ensure Their Financial Strength

Unlike other industries, all insurers in the United States are subject to robust regulation at the state level that is primarily focused on ensuring that regulated entities are financially solvent and can fulfill their long-term obligations to policyholders. This regulatory system, which has evolved and repeatedly proven successful in protecting life insurance policyholders, utilizes a variety of tools to assess risk, provides enhanced transparency, establishes and enforces stringent prudential standards, and enables ongoing supervision and examination to substantially reduce the risk of insurer insolvency.

For instance, one of the essential aspects of state insurance regulation is the use of risk-based capital (RBC) requirements. RBC is a method of calculating the minimum amount of capital needed for an insurer to operate and fulfill its obligations to policy holders, with a higher RBC ratio (*i.e.*, the ratio of available capital to required capital) generally reflecting increased financial strength. RBC requirements rest on very conservative assumptions established by

[1] Based on Moody's Financial Strength Ratings as of December 14, 2023.

insurance regulators, requiring a higher amount of capital as the risk profile of the company increases. If an insurer's RBC ratio decreases below certain levels, it will trigger escalating corrective measures and regulatory interventions to ensure that policyholders are protected.

Looking at RBC ratios across the life insurance industry, U.S. life insurers – regardless of ownership structure – are well capitalized and financially strong, with more than ample resources to support their long-term obligations to policyholders. This healthy snapshot is a testament to the significant oversight that all U.S. life insurers are subject to and the merits of the state-based regulatory system, as well as undercuts the proposal's unwarranted and unnecessary distinction between publicly traded companies and non-publicly traded companies in our industry as it relates to their creditworthiness.

Although RBC ratios are not intended as a means to rank insurers,[2] it is worth noting that, on average, Mutual Insurers have very strong RBC ratios – a trend that has existed for many years.[3]

II. All U.S. Insurers Are Subject to Enhanced Transparency

In addition to other mechanisms that help ensure insurers remain financially strong, the state-based regulatory system requires companies to submit financial statements on a quarterly and annual basis, including routine audited financial statements. These financial statements are accessible to the public,[4] similar to disclosures required by the Securities and Exchange Commission (SEC) for public companies. That said, while the SEC's financial reporting requirements are primarily focused on the interests of shareholders and the equity markets, the financial statements required by state insurance regulators are focused on each insurer's ability to fulfill its obligations to policyholders and its solvency, in accordance with conservative valuation and capital standards.

When justifying the significantly lower risk weighting for publicly traded companies, the proposal asserts that they "are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange." Although we recognize that the information provided in SEC disclosures might be useful if there are no other sources available, this line of reasoning overlooks that all U.S. insurance companies are required to provide audited, publicly accessible financial statements that arguably better reflect their financial strength as insurers than SEC disclosures. Since these statements are comprehensive and uniform across the industry, they also give banks and regulators a robust source of material information to help them assess the financial strength of life insurers and options in the marketplace. As such, the proposal's rationale for discriminating against non-publicly traded life insurers such as the undersigned fails to recognize the enhanced transparency of our regulatory system and is unfounded.

[2] NAIC Risk Based Capital (RBC) for Insurers Model Act, Section 8.E

[3] U.S. Life Insurer RBC Trends Confirm Industry Capital Levels Remains Strong | LinkedIn (https://www.linkedin.com/pulse/us-life-insurer-rbc-trends-suggest-industry-capital-levels-devine/)

[4] Financial statements can be obtained online from the National Association of Insurance Commissioners.

The proposal's flawed reasoning is further borne out whenever our companies access the capital markets. Although we are not public companies, all of the undersigned have issued 144A securities and/or surplus notes through private offerings. Although not as prescriptive as the documentation associated with public issuances, the disclosures associated with these offerings provide detailed insights into our respective businesses and industry. Managed and sold by top investment banks across the globe, the offering memoranda can be accessed by qualified institutional buyers and provide yet another source of information to sophisticated interested parties. The exceptional terms the markets have afforded our companies in connection with these instruments also underscores the financial strength and creditworthiness of Mutual Insurers. To discount the markets' highly favorable assessment of our companies based upon largely meaningless differences in how disclosures are made is arbitrary and unwarranted.

III. Mutual Insurers Have Exceptional Financial Strength

In addition to elevated RBC ratios and being subject to the same, robust regulatory requirements as all other insurers, Mutual Insurers have a long, well established track record of fulfilling long-term promises to policyholders. Since we are owned by our policyholders, this distinguished history makes sense. Mutuality aligns our interests with the customers we serve, whether they are individuals or institutional clients such as banks.

Moreover, the exceptional financial strength of Mutual Insurers has been widely recognized by credit rating agencies.[5] Yet, under the proposal, if a large bank were to purchase a life insurance policy from any of us, this corporate exposure would receive a materially higher risk weight than if it were from a public company with a meaningfully lower financial strength rating. Such an outcome runs completely counter to the proposal's stated intention of aligning risk weights with creditworthiness and demonstrates why the criterion of having publicly traded securities makes no sense for our industry.

IV. The Proposal's Harmful Impact On The Banking System

Banks purchase BOLI policies for a variety of business purposes, including employee compensation and benefit plans, key person insurance, and insurance to recover the cost of providing pre- and post-retirement employee benefits. Since its introduction over 30 years ago, BOLI has grown to be an important asset on the balance sheets of banks of all sizes. Currently, over 60% of U.S. banks own BOLI with at least $1 million in account value. Moreover, in 2022, 70% of the BOLI contracts sold in the United States were issued by Mutual Insurers.[6]

By assigning a significantly higher risk weight to BOLI policies issued by Mutual Insurers, the proposal would drive larger banks away from Mutual Insurers' products despite their exceptional credit quality and other benefits. Mutual Insurers would potentially be exposed to increased risk of anti-selection, in the event banks are motivated to exchange policies insuring younger or healthier individuals to public life insurance carriers to achieve the lower risk

[5] Top 25 Highest Rated Insurance Companies (insuranceandestates.com)

[6] IBIS Associates, 2022 BOLI Sales Survey Results

weighting. It therefore would effectively sideline some of the biggest BOLI issuers which would severely disrupt product availability and lead to greater market and credit concentration. These impacts would undoubtedly make it harder for large banks to utilize BOLI products for the benefit of their employees while maintaining prudent credit diversification across highly rated insurers.

In addition, the proposal would perversely drive banks away from purchasing BOLI policies from some of the most financially strong insurers in the industry and towards insurers with lower financial strength ratings, which would almost certainly introduce greater credit risk into the banking system. Moreover, it would unfairly disadvantage banks that already have acquired BOLI products from Mutual Insurers since the proposal would unexpectedly assign a higher risk weighting for these long-duration contracts than if they had acquired these policies from a publicly traded insurer. Given that BOLI products are typically in force for decades, the adverse ramifications from the artificial distinction that the proposal imposes would likewise affect the banking and life insurance industries for decades.

Considering the proposal's significant disruption to the BOLI market and the negative impact it would have on banks due to its arbitrary and unfounded discrimination against Mutual Insurers, we urge you to revisit it so that the distinction between public companies and non-public companies in our industry is eliminated.

V. Corporate Exposures To All Investment Grade U.S. Insurers Should Receive Reduced Risk Weighting

The proposal's corporate exposures provision establishes a two-pronged test for receiving the lower risk weight – namely, the exposure is to a company that is: (1) investment grade; and (2) has public securities outstanding (or the parent company that controls the company has such securities). For the abovementioned reasons, this second criterion of the two-pronged test lacks any merit in the insurance space.

All U.S. insurers are subject to robust regulation coupled with the enhanced transparency that the proposal cites as justification for using public securities outstanding as a bright-line criterion. As such, we submit that the second prong of the two-part test is irrelevant and should not apply to our industry. This revised approach would better reflect our industry's regulatory environment as well as avoid the significant market disruption and harmful effects on the banking system that would foreseeably occur. Moreover, this revision would more accurately align risk weights with an exposure's credit quality than the proposal in its current form.

VI. Conclusion

As some of the largest and longstanding Mutual Insurers in the country, we are strongly committed to helping more Americans be financially secure. We also note our important role as a major investor and critical partner to various parts of the U.S. economy, including the banking system. Although we appreciate the need to make sure that capital requirements for banks accurately reflect risk, such an effort misses the mark if it arbitrarily differentiates capital requirements for corporate exposures to highly creditworthy Mutual Insurers such as the undersigned simply because of our ownership structure. Considering our industry's regulatory environment and transparent reporting requirements, as well as the exceptional financial strength of Mutual Insurers, we respectfully ask that this serious flaw be addressed so that corporate exposures to all investment grade insurers receive a reduced risk weight that is no higher than 65%.

We appreciate the opportunity to comment on this major regulatory effort. We would be happy to provide additional information and look forward to continuing to engage on this issue.

Respectfully submitted,

DocuSigned by:
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Addendum: Financial Strength Ratings For Undersigned Companies

(Companies listed in alphabetical order)

Company	Moody's	Fitch	Standard & Poor's	A.M. Best
Guardian	Aa1	-	AA+	A++
Massachusetts Mutual	Aa3	AA+	AA+	A++
Nationwide Life	A1	-	A+	A+
New York Life	Aaa	AAA	AA+	A++
Northwestern Mutual	Aaa	AAA	AA+	A++
Securian Financial	Aa3	AA	AA-	A+
TruStage (CMFG Life)	A2	-	A+	A
Western & Southern	Aa3	AA	AA-	A+