MetLife sues FSOC over “SIFI” designation

By Editorial Staff *Thu, Jan 15, 2015*

MetLife has long argued that the SIFI restrictions are designed for banks, and not insurance companies, because their risks are fundamentally different from banks, and because insurers are already tightly regulated by the individual states.

MetLife has filed a **civil suit** against the Financial Stability Oversight Council in U.S. District Court, District of Columbia, contesting the FSOC’s designation of the giant publicly-held global insurance company as a non-bank “systemically important financial institution” or (SIFI).

The SIFI designation is both a curse and a blessing. It raises capital requirements and other profit-reducing restrictions on designated companies to make them safer, because their failure could jeopardize the entire U.S. financial system. On the positive side, it implies that the company will never be allowed to fail.

MetLife has long argued that the SIFI restrictions are designed for banks, and are inappropriate for insurance companies, however large, because their risks are fundamentally different from banks, and because insurers are already tightly regulated by the individual states in which they do business.

Prudential Financial and AIG are the only other insurers to have been designated as SIFIs by the FSOC.

The lawsuit claims that “The traditional business of life insurance in which MetLife engages differs dramatically from the traditional business of banking. In general, banks borrow short term and lend long term—for example, by taking liquid, short-term deposits and wholesale funding and investing in illiquid long-term assets, such as commercial loans.

“In contrast, life insurers generally write long-term policies and invest premium dollars in long-term assets to make good on those obligations when they come due…. Because life insurers do not depend as banks do on short-term deposits and short-term wholesale funding, they are not subject to the “run” risks (and corresponding liquidity crises) to which banks are subject.”

On the issue of the damage that the SIFI designation could do to MetLife as a business, the lawsuit says, “An empirically-based estimate shows that the annual consumer cost of applying additional capital requirements to nonbank SIFI and thrift-owning insurers could be as great as $8 billion, depending on the capital requirements applied.... In particular, it has been estimated that imposing bank-centric capital requirements on MetLife would require the Company to raise its capital reserves by tens of billions of dollars, ultimately harming consumers.”