
Who Is 'Too Big to Fail'?

By Editorial Staff Tue, Sep 6, 2011

Concerned that your insurance company might be designated a SIFI (Systemically Important Financial Institution)? Then read Deloitte's primer on SIFIs. Here's a synopsis and a link.

It might be flattering to be designated a Systemically Important Financial Institution (SIFI) under the Dodd-Frank financial reform bill, but most insurance executives are probably hoping that their firms avoid the "too big to fail" distinction.

Any bank with over \$50 billion in assets will automatically be classified as a SIFI under Dodd-Frank. A non-bank whose financial revenues (or financial assets) account for 85% of their gross revenues (or consolidated assets) in either of the previous two years may also be considered a SIFI.

That has apparently left executives at several large insurance companies wondering whether their firms might be designated as SIFIs by the Financial Stability Oversight Council, which is chaired by the Treasury Secretary. If so, they may want to read a primer on SIFIs published in July by Deloitte.

Entitled, "[Too big to fail? A roadmap for insurance and other nonbank financial companies through the new world of systemically important financial institutions](#)", the document describes the criteria that the government will use in designating SIFIs, the advantages and disadvantages of the designation, and Deloitte's menu of services for executives who feel their firms may be scrutinized.

Criteria

The criteria for SIFI will be:

Size

- Number of customers
- Market capital
- Premium/underwriting income
- Investment income
- Total assets
- Off-balance sheet exposures (e.g., contingent liabilities and parental guarantees)
- Credit and liquidity products, if any
- Market share

Dominance

- Size of markets
- Existing competitors
- Market share
- Potential market entrants
- Barriers to entry

Interconnectedness

- Reinsurance agreements
- Derivatives and hedging transactions
- Cross guarantee arrangements

Leverage

- Operating and financial leverage
- Regulatory and risk-based capital
- Dependency on re-insurance
- Ratio of adjusted capital and surplus to liabilities

Liquidity risk and maturity mismatch

- Acid test & quick ratio
- Underwriting, investment and asset liquidity cash flows
- Investment grades of the company's bond portfolio
- Hedge mismatch
- Securities lending portfolios

Existing regulatory scrutiny

- National Association of Insurance Commissioners
- State Departments of Insurance
- Federal Insurance Office

Designation process

Screening and consideration. The FSOC will consult with the primary regulator or conduct an examination on a nonbank financial company being considered for SIFI designation. If the FSOC is unable to make a determination, it may ask the Fed to conduct an examination.

Notice of consideration. FSOC will issue notice and request materials from the nonbank financial company on the appropriateness of SIFI consideration.

Written notice. If the FSOC determines the nonbank financial company should be designated a SIFI, it will provide the company written notice, including an explanation of the basis of its determination.

Hearing. If the company wishes to contest the determination, it must request a hearing before the FSOC within 30 days of receiving the notice. The FSOC then must schedule a hearing within 30 days.

Final determination. The FSOC then must make a final determination within 60 days of the hearing and notify the company.

Potential consequences of designation

If an institution is designated a SIFI, according to Deloitte, it may face “heightened prudential standards,” including:

- Risk-based capital requirements
- Concentration limits
- Potential FSOC recommendations of prudential standards
- Leverage limits
- Contingent capital requirements
- Resolution plan and credit exposure report requirements
- Liquidity requirements
- Enhanced public disclosures
- Overall risk management requirements