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S&P Global
Market Intelligence

Insurers' FHLB borrowings face headwinds in 2021 after reaching new record

By Tim Zawacki **April 26, 2021**

After a year in which insurance company reliance on funding from the 11 U.S. Federal Home Loan Banks reached new highs, the institutions themselves have become more dependent on insurers than ever before.

Disruption in the financial markets in March 2020 led to a surge in borrowings from the FHLBs by a wide range of member institutions seeking to shore up short-term liquidity. Since then, however, borrowings by insurers have held relatively steady while advances to increasingly deposit-rich banking institutions fell sharply.

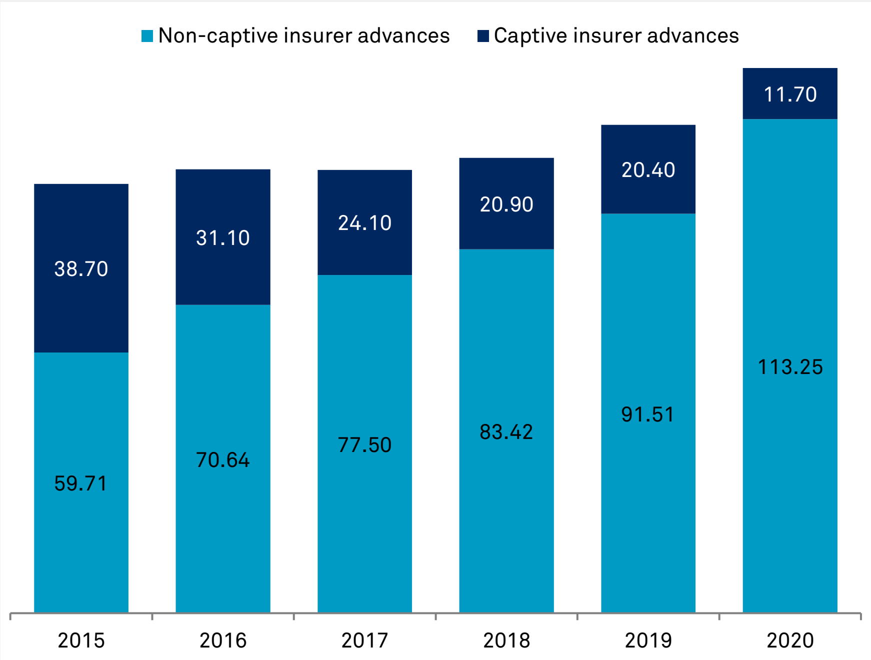
Several factors point to at least some reduction in insurance company borrowings in 2021, but not before the importance of the FHLBs' reliability and insurers' status as key bank members have been solidified.

As concerns about liquidity and capitalization have materially declined during the past 12 months, the sort of backup funding needs that FHLB borrowings helped address may have mostly dissipated. But FHLB borrowings and access remain critical to a growing number of insurers' business plans, particularly for entities like mutual insurers that may be limited in their range of funding options.

The FHLBanks Office of Finance reported that insurers accounted for $124.95 billion, or 29.6%, of total outstanding advances of $422.64 billion as of Dec. 31, 2020, up from $111.91 billion, or 17.4%, a year earlier. They were responsible for as little as 9% of aggregate advances at year-end 2013.

Insurance company FHLB advances likely to decline in 2021 as captives depart, liquidity needs subside

Aggregate advances at year-end ($B)



Data compiled April 15, 2021.
Results reflect disclosures on annual reports of the Federal Home Loan Banks Office of Finance. A rule implemented by the Federal Housing Finance Agency, which regulates the Federal Home Loan Bank System, caused the termination of the membership of captives no later than February 2021.
Source: S&P Global Market Intelligence.

Captive insurers, which faced termination of their memberships in February 2021 and the continuing runoff of existing borrowings, accounted for $11.7 billion of the year-end 2020 advances, down from $20.4 billion as of Dec. 31, 2019. The number of insurance company members increased on a year-over-year basis at nine of the 11 FHLBs, despite the withdrawal of select captives, however.

A separate S&P Global Market Intelligence analysis of disclosures in insurance company annual statements found $113.92 billion in advances, funding agreements and other forms of borrowing from the FHLBs as of Dec. 31, 2020. That marked a decline from insurers' maximum borrowings of $134.89 billion over the course of 2020, but a sharp increase from the year-end 2019 tally of $92.14 billion. Figures reported by the FHLBs on an aggregate basis and insurers on a sum-of-the-parts basis differ slightly but are directionally consistent.

The number of insurers across sectors that reported some amount of FHLB borrowings

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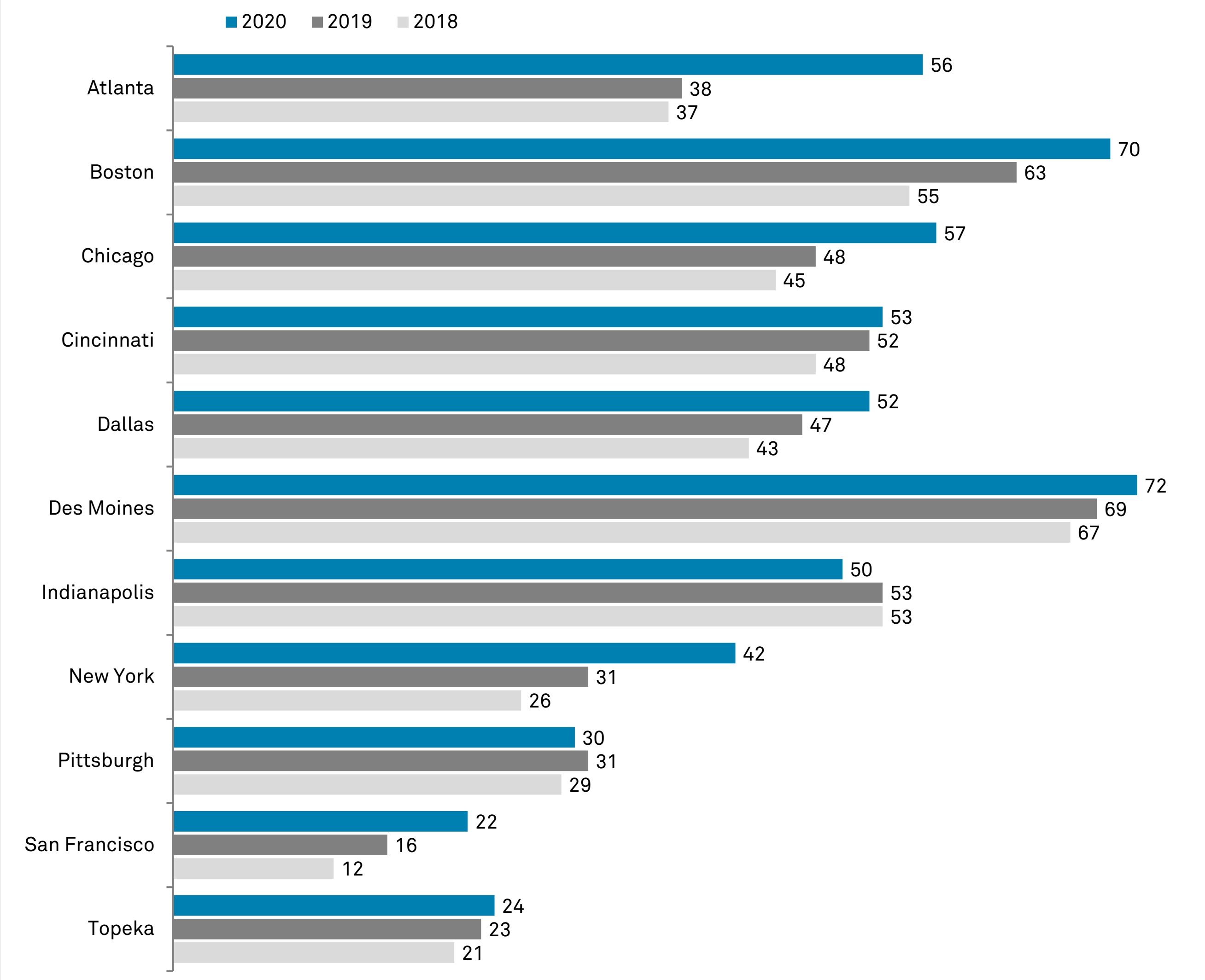
Number of insurance company members by individual federal home loan bank



Data compiled April 15, 2021.
Results reflect disclosures on the Forms 10-K of the 11 individual federal home loan banks and the annual reports of the Federal Home Loan Banks Office of Finance. Data includes captive insurance companies, which may not file annual statements with the National Association of Insurance Commissioners. A rule implemented by the Federal Housing Finance Agency, which regulates the Federal Home Loan Bank System, caused the termination of the membership of captives no later than February 2021.
Source: S&P Global Market Intelligence.

in their annual statements increased to 202 as of Dec. 31, 2020, from 165 a year earlier. Growth was particularly noteworthy among P&C insurers as the number of active borrowers rose by 47.9% on a year-over-year basis. A total of 244 insurers had borrowings at some point in 2020, including 19 P&C insurers that had fully repaid their aggregate advances of $731.6 million by year's end.

Like a new neighbor

FHLB advances plunged by 47.6% between March 31, 2020, and Dec. 31, 2020, according to FHLBanks Office of Finance data, fueled by a 64.8% drop among commercial banks — the largest borrower category. Borrowings taken by noncaptive insurers, meanwhile, increased during the same nine-month stretch by 0.3%.

Rather than a pressing need for additional short-term liquidity, fallout from the mechanics of State Farm Mutual Automobile Insurance Co.'s exit from its banking business may have served as the primary catalyst for the sector's relative divergence. State Farm Bank FSB voluntarily liquidated effective March 30 having sold credit card accounts and transferred deposits to a U.S. Bancorp subsidiary.

The largest U.S. personal lines insurer became a member of the Federal Home Loan Bank of Chicago in June 2020, then took 34 different advances with a range of maturity dates in the aggregate amount of $3.35 billion in July 2020 in support of certain acquisitions of assets from State Farm Bank that had not been included in the U.S. Bank NA transaction. State Farm Mutual Automobile subsequently engaged in a series of advances over the course of the third quarter and ultimately assumed $927.2 million of FHLB advances from State Farm Bank in September 2020. The maximum amount borrowed by the insurer during 2020 was $5.75 billion; its year-end total was $4.79 billion, which reflected various payments of principal and interest along with certain maturities. The company's remaining borrowings have various maturity dates through September 2023, at least certain of which occur in 2021, suggesting the potential for further run-off.

State Farm Bank ranked as the Chicago FHLB's fifth-largest borrower at the end of 2019. State Farm Mutual Automobile placed second only to a JPMorgan Chase & Co.-affiliated captive insurer among the institution's largest borrowers as of Dec. 31, 2020. That captive, One Mortgage Partners Corp., which accounted for the vast majority of outstanding captive insurer advances, had its membership terminated in February in accordance with Federal Housing Finance Agency guidelines.

MetLife remains on top

State Farm's aggregate advances at the cross-sector group level ranked third-highest among non-captive insurers in a list otherwise dominated by life insurers that have entered funding agreements with the various FHLBs.

The U.S. subsidiaries of MetLife, Inc. not only held the largest amount of FHLB borrowings among insurance companies, but they also held that title among all categories of members at year-end 2020 at $16.95 billion. In another sign of how much other categories of borrowers pulled back during 2020, six bank holding companies had taken more advances in the aggregate than MetLife as of Dec. 31, 2019.

MetLife's aggregate borrowings at the group level increased by 5.2% in 2020, but there is at least one development that will present headwinds to any potential 2021 expansion.

Approximately $700 million of the MetLife total involved advances from the Federal Home Loan Bank of Boston by Metropolitan Property & Casualty Insurance Co. In connection with that company's recently completed sale to Farmers Group Inc., its participation in the FHLB program will be terminated.

More potential contraction

Near-term maturities could also limit growth in aggregate insurance industry borrowings.

Another of the P&C sector's leading FHLB borrowers, American Family Mutual Insurance Co. S.I., has spring 2021 maturity dates for $204 million of its $1.20 billion in outstanding advances as of Dec. 31, 2021.

Approximately $105 million of the advances taken by West Bend Mutual Insurance Co., one of the insurers that materially increased its borrowings as a precautionary liquidity measure in the spring of 2020, was due to mature in April following a six-month extension.

P&C insurers Auto-Owners Insurance Co. Inc. and Amerisure Mutual Insurance Co. Inc. borrowed and repaid $300 million and $115 million during 2020.

Federal Home Loan Bank of New York President and CEO Jose Gonzalez said in an April 5 statement posted on the institution's website that the system is "designed to grow and shrink our advance book based on member needs." Gonzalez said that reliability represents the "main value" of membership, highlighted by the access the FHLBs provide to "low-cost liquidity in all markets, whether turbulent or calm, even as other funding sources dry up or are slow out of the gate at the onset of a crisis."

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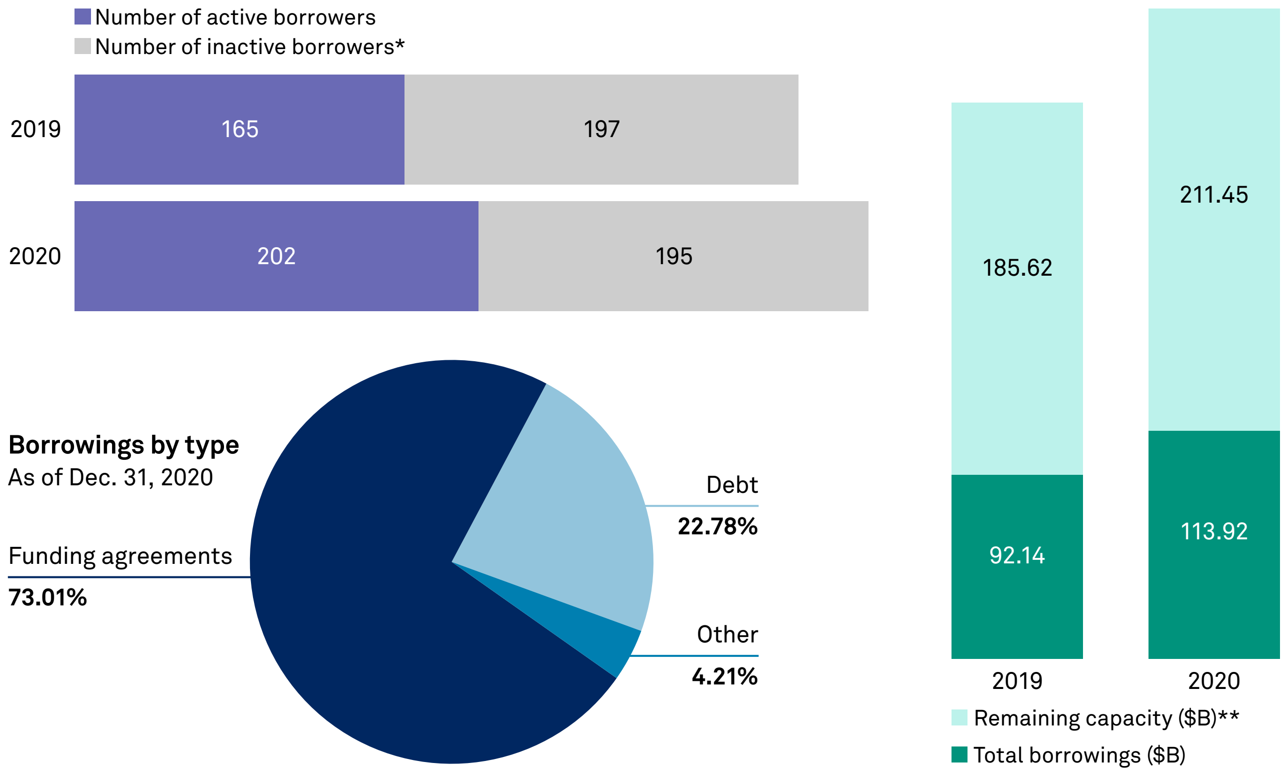
US insurers significantly expanded FHLB borrowings in 2020

FHLB borrowings across insurance sectors



Largest FHLB borrowers at year-end: Cross-sector group level

	2020 ($M)	2019 ($M)	YOY change (%)	Capacity ($M)
MetLife	16,950.00	16,120.00	5.15	25,565.86
Equitable Holdings	6,890.42	6,900.42	-0.14	12,102.00
State Farm	4,791.44	0.00	NM	8,500.00
Sammons Enterprises	4,599.15	3,599.15	27.78	5,762.15
Principal Financial Group	4,252.50	4,010.92	6.02	10,700.00

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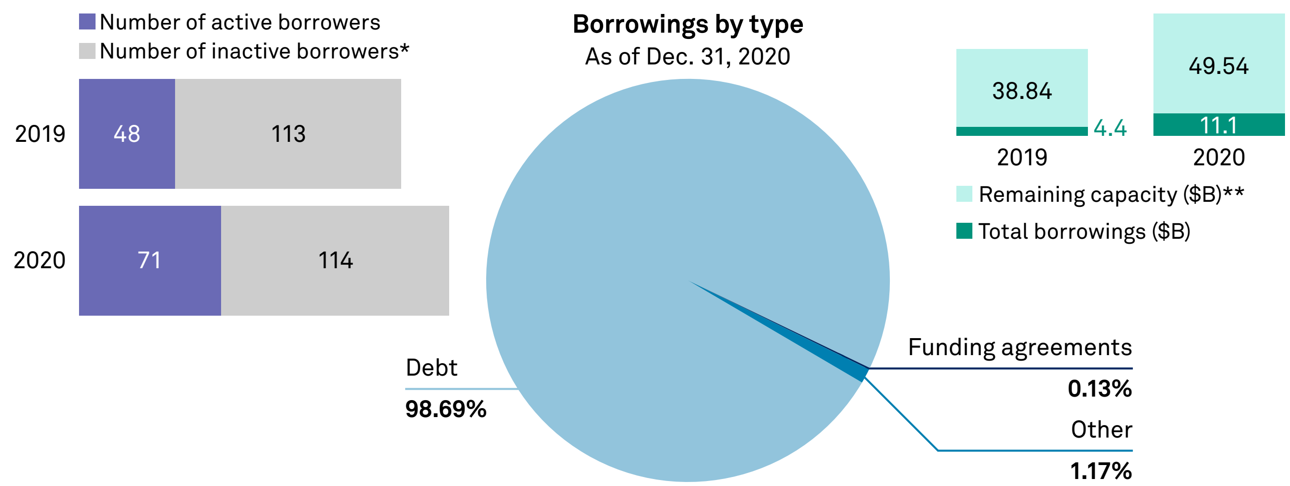
FHLB borrowings by P&C insurers



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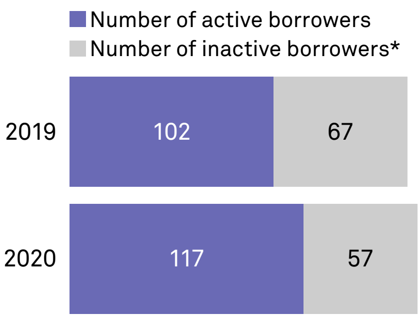
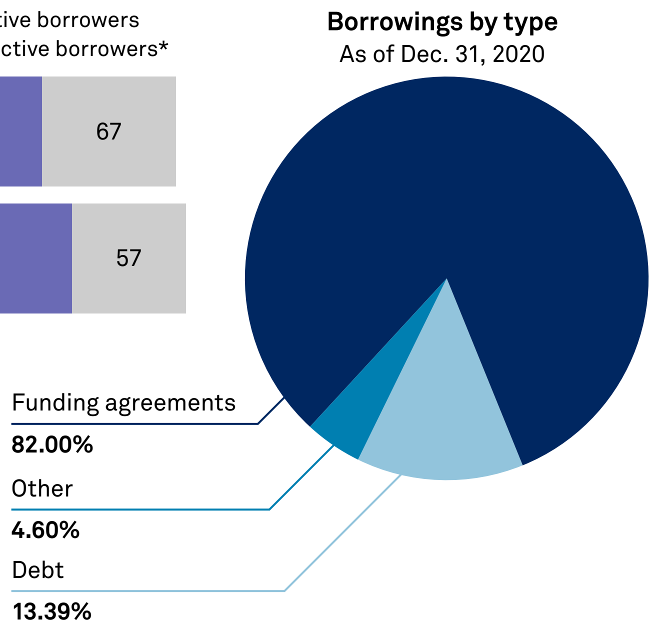
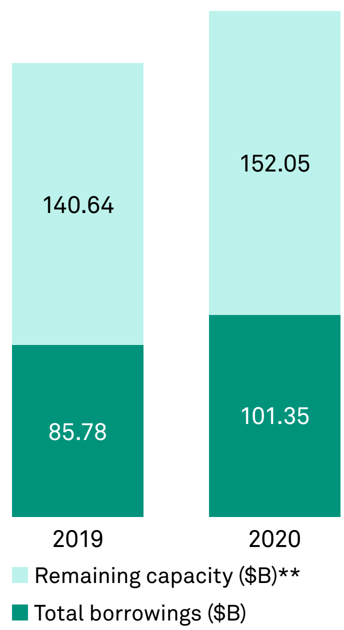
Largest FHLB borrowers at year-end: P&C group level

	2020 ($M)	2019 ($M)	YOY change (%)	Capacity ($M)
State Farm	4,791.44	0.00	NM	8,500.00
American Family Insurance	1,204.00	1,000.00	20.40	1,297.06
MetLife	700.00	800.00	-12.50	3,338.98
CopperPoint Insurance Companies	374.89	300.00	24.96	385.77
State Compensation Insurance Fund	342.92	149.52	129.35	731.04

FHLB borrowings by life insurers and fraternal benefit societies







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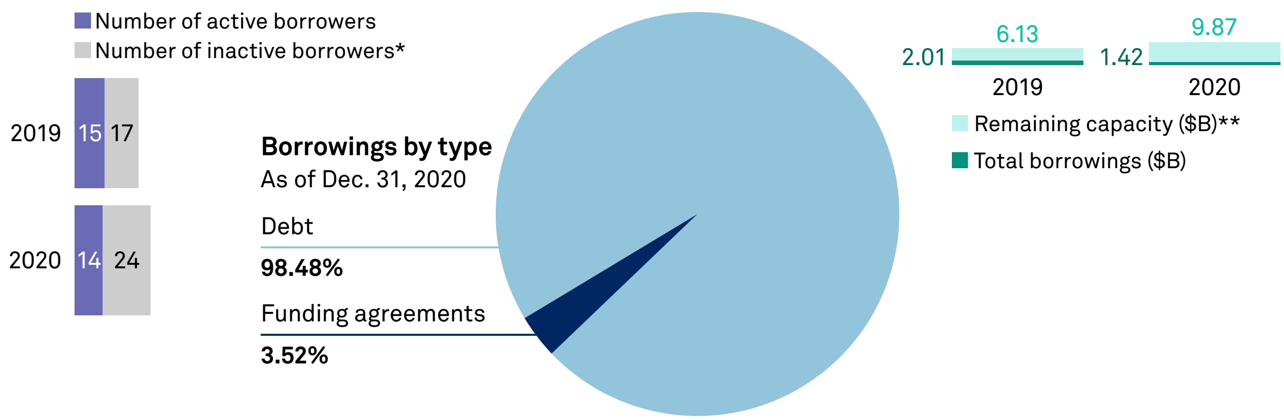
FHLB borrowings by title and managed care companies



Largest FHLB borrowers at year-end: Life group level

	2020 ($M)	2019 ($M)	YOY change (%)	Capacity ($M)
Blue Cross Blue Shield of Michigan	465.20	345.24	34.75	2,093.46
Blue Cross Blue Shield of Arizona	255.00	250.00	2.00	553.20
Blue Cross Blue Shield of Massachusetts	200.00	200.00	0.00	300.00
Independence Health Group	178.92	0.00	NM	392.69
Premera Blue Cross	150.00	0.00	NM	325.97

Data compiled April 15, 2021.
FHLB = federal home loan bank; NM = not meaningful
Results for all periods reflect the compilation of disclosures by individual noncaptive U.S. insurance companies on Note 11 of their 2020 annual statements as filed with the National Association of Insurance Commissioners. Data is limited to those entities for which 2020 results were available in electronic form. The number of active insurance company borrowers and their aggregate amount of outstanding borrowings as compiled from insurance company annual statements may differ from results reported in the combined annual financial report of the FHLBanks Office of Finance.
* Inactive borrowers represent those insurance companies that reported zero FHLB borrowings as of Dec. 31, 2020, but some amount of actual or estimated borrowing capacity. Excludes entities that owned class A or class B membership stock in a home loan bank, but showed zero borrowing capacity.
** Remaining capacity represents the actual or estimated FHLB borrowing capacity less the total outstanding amount of FHLB borrowings as of Dec. 31, 2020. Borrowing capacity is estimated by the individual insurer.
Credit: Cat Weeks
Source: S&P Global Market Intelligence.