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S&P Global
Market Intelligence

FHLB membership offers insurers source of billions in backup liquidity

By Tim Zawacki **April 27, 2020**

U.S. insurers possessed nearly $200 billion in available capacity to borrow from the federal home loan bank system as 2020 began, representing a robust potential source of liquidity in a period of market dislocation triggered by COVID-19.

The amount would represent a floor rather than a ceiling should industry participants follow a pattern than emerged in 2008 when deteriorating market conditions during the global financial crisis led a number of insurers to join and borrow from one of the FHLBs.

U.S. insurers and fraternal benefit societies reported total borrowings of $91.50 billion from the 11 FHLBs in the notes to their 2019 annual statutory statements. This includes advances, funding agreements and other instruments, and it represented only about 31.5% of their total capacity. S&P Global Market Intelligence calculates at $199.14 billion the undrawn borrowing capacity of property and casualty, life, managed care, and title insurers as well as fraternal societies.

First-quarter earnings reports will provide additional insight as to the extent to which insurers may have drawn down on FHLB facilities or pursued more traditional sources of liquidity. To date, State Automobile Mutual Insurance Co. and State Auto Financial Corp.'s State Auto Property And Casualty Insurance Co. in March reported taking advances from the Federal Home Loan Bank of Cincinnati in an amount totaling $100 million in response to economic uncertainty. State Auto Property and Casualty then replaced an expiring $100 million open line of credit commitment from the Cincinnati home loan bank with a comparable facility of the same size.

Midland National Life Insurance Co., a Sammons Enterprises Inc. company, executed $800 million in borrowings from the Federal Home Loan Bank of Des Moines in March to provide a source of additional liquidity should COVID-19 continue to disrupt financial markets. It ended 2019 with $2.27 billion in advances, of which $325 million was scheduled to mature during the first two months of 2020.

Broadening the base

Fallout from the financial crisis thrust alternative liquidity sources for the insurance industry such as FHLBs into the spotlight. Principal Financial Group Inc.'s Principal Life Insurance Co. joined the Des Moines bank in 2008 as then-CEO Larry Zimpleman said during a conference call at that time it was "making sure that liquidity is where it needs to be" to meet business unit and corporate borrowing needs in a challenging environment.

By the end of 2008, insurance company membership in the FHLB system increased to 184 from 152 a year earlier. The aggregate amount of their borrowings spiked to $54.9 billion from $28.7 billion during that period. The membership count has risen at a much steeper rate than aggregate borrowings over the past 11 years. The FHLBanks Office of Finance put the number of insurance company members at 471 at year-end 2019, a tally that includes a handful of captive insurers affiliated with mortgage REITs.

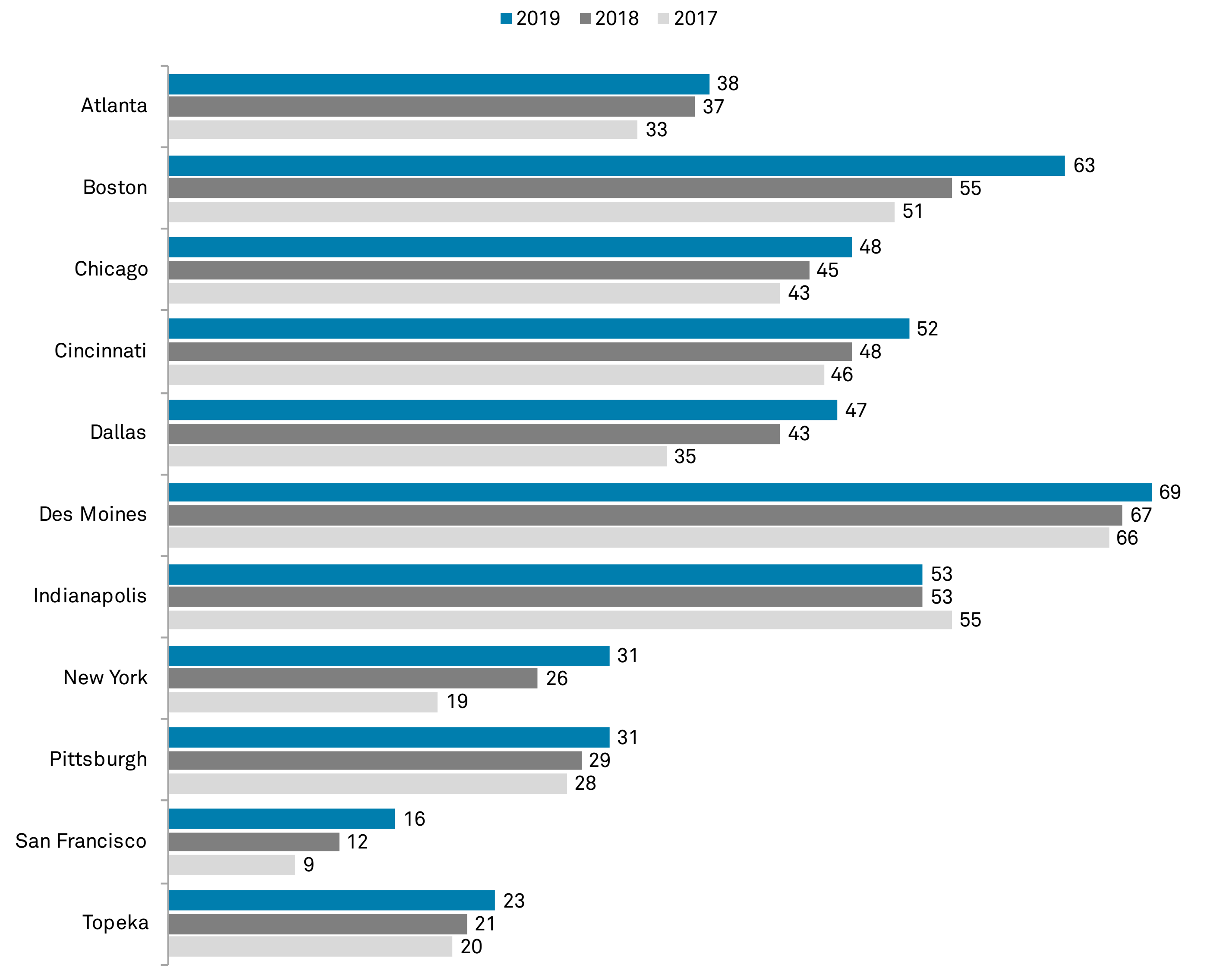
Yet even as membership has expanded dramatically, there is room for a repeat of 2008 to the extent companies opt to join a FHLB to gain access to another funding source.

Among the 677 individual life insurance entities for which data was available as of April 20, 74.4% did not hold stock in a FHLB. Membership status is contingent upon the purchase of capital stock in an individual FHLB. Another 11.1% of the individual life entities held FHLB stock but maintained no borrowings as of year-end 2019. Of the 241 life companies with at least $1 billion in assets, 17.8% held FHLB stock but reported no borrowings; 46.5% did not hold FHLB stock.

Membership was commonplace among the largest individual life companies. Only Northwestern Mutual Life Insurance Co. among the top 15 individual life insurers by asset size reported no FHLB stock on the notes to its financial statements, and the company confirmed that it did not maintain any agreements with an FHLB during 2018 or 2019. Aggregate borrowings by the top 15 individual life entities totaled $40.36 billion relative to total borrowing capacity of $109.33 billion. MetLife Inc.'s Metropolitan Life Insurance Co., the insurance industry's largest FHLB borrower across all sectors, accounted for $14.45 billion of the outstanding borrowings.

The opportunities appear to be even more plentiful in the P&C sector. Among the 2,550 individual P&C entities for which data was available as of April 20, 92.9% reported holding no FHLB stock. Relative to the life industry, P&C companies that owned FHLB stock were more likely to be active

Number of insurance company members by individual federal home loan bank



Data compiled April 20, 2020.
Results reflect disclosures on the Forms 10-K of the 11 individual federal home loan banks. 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 many captives in or prior to February 2017.
Source: S&P Global Market Intelligence

borrowers: only 5.5% of the individual P&C entities reported ownership of FHLB stock but no borrowings outstanding.

When limiting the analysis to P&C entities with at least $1 billion in assets, 73.8% did not hold FHLB stock. Seven of the 15 largest individual P&C entities by asset size reported holding FHLB stock: two American International Group Inc. subsidiaries along with United Services Automobile Association, Nationwide Mutual Insurance Co. and units of Zurich Insurance Group AG, CNA Financial Corp., and Hartford Financial Services Group Inc. But none of the seven reported any outstanding borrowings relative to their aggregate capacity of $4.83 billion. That figure does not include any capacity attributable to Zurich American Insurance Co., which did not populate the requisite fields in the notes to its financial statements.

Funding deals

Certain of the relatively few P&C companies that increased or established borrowings from FHLBs in 2019 did so in connection with M&A activity, a purpose that seems less likely in the current environment as deal flow has materially slowed.

CopperPoint Insurance Co. became a member of the Federal Home Loan Bank of San Francisco and entered a $300 million debt arrangement to help fund its purchase of Alaska National Insurance Co., including $112.5 million in borrowings due May 13, 2020, and the remaining $187.5 million due November 2024. The six-month and five-year borrowings bear interest at rates of 1.69% and 1.89%, respectively. CopperPoint is required to secure those borrowings with assets having fair value of at least 115% of the aggregate principal outstanding.

American Family Mutual Insurance Co. S.I. continued in its role as one of the P&C industry's largest and most creative FHLB borrowers. Its $1 billion in borrowings from the Federal Home Loan Bank of Chicago led the sector and marked a near doubling from the year-end 2018 level. The company added $500 million to its existing total, which reflected 30-year borrowings taken in 2013 to help fund the acquisition of Homesite Group Inc., in the form of a six-month advance. American Family notified the Wisconsin Office of the Commissioner of Insurance that it intended to borrow up to $500 million from the home loan bank in connection with its acquisition of Ameriprise Financial Inc.'s former auto and home business.

Another P&C insurer, First Protective Insurance Co., borrowed $15.2 million in 2019 from the Federal Home Loan Bank of Atlanta as it sought to take advantage of the low associated interest rates rather than selling higher yielding investments to satisfy its short-term cash needs.

Among life insurers and fraternal benefit societies, three individual entities accounted for much of the sector's 9.3% year-over-year increase in FHLB borrowings.

Equitable Holdings Inc.'s Equitable Financial Life Insurance Co. reported $6.90 billion outstanding under funding agreements with the Federal Home Loan Bank of New York at year-end 2019, up from $3.99 billion a year earlier. Symetra Life Insurance Co., which issues funding agreements to the Des Moines home loan bank in support of an institutional spread program, reported $1.49 billion outstanding as of Dec. 31, 2019, up from $105.7 million. EquiTrust Life Insurance Co. Inc.'s borrowings, also mostly related to funding agreements, rose to $2.13 billion from $1.04 billion on a year-over-year basis.

Five life insurers reported $100 million or more in FHLB borrowings at year-end 2019 as compared with zero on Dec. 31, 2018. Among them, Teachers Insurance & Annuity Association of America said it used proceeds from FHLB funding agreements to purchase short-term Japanese government bonds as part of a yield-enhancement strategy.

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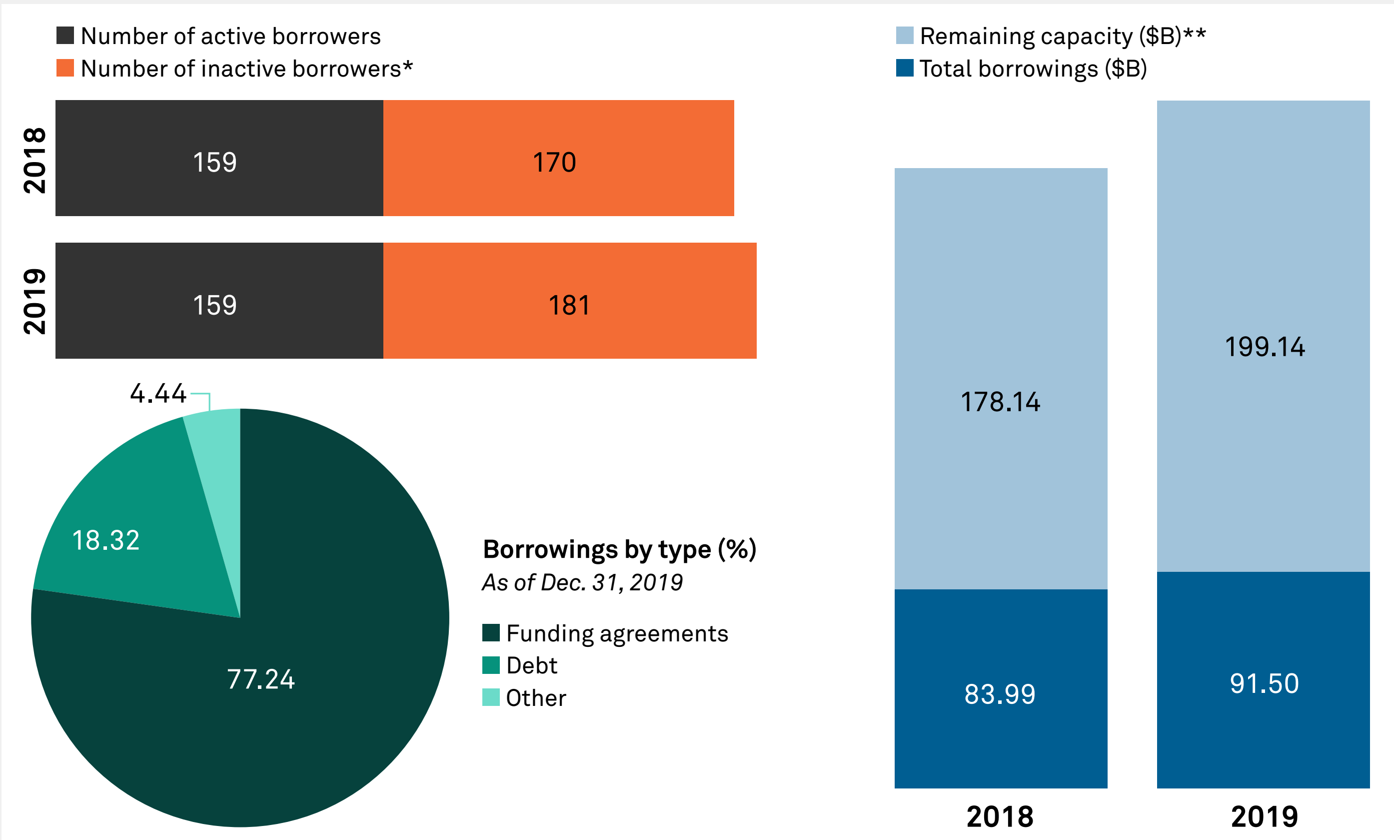
FHLB borrowings across insurance sectors



Largest FHLB borrowers at year-end: Cross-sector group level	2019 ($M)	2018 ($M)	YOY change (%)	Capacity ($M)
MetLife	16,120.00	15,920.00	1.26	29,439.67
Equitable Holdings	6,900.42	3,990.42	72.92	10,300.00
Principal Financial Group	4,010.92	3,512.21	14.20	10,900.00
Sammons Enterprises Inc.	3,599.15	3,599.15	0.00	26,618.07
Lincoln Financial	3,580.00	3,930.00	-8.91	3,830.00
Largest FHLB borrowers at year-end: Individual entity level				
Metropolitan Life Insurance Co.	14,445.00	14,245.00	1.40	14,245.00
Equitable Financial Life Insurance Co.	6,900.42	3,990.42	72.92	3,990.42
Principal Life Insurance Co.	4,010.92	3,512.21	14.20	3,512.21
Lincoln National Life Insurance Co.	3,580.00	3,930.00	-8.91	3,930.00
American General Life Insurance Co.	3,148.13	3,148.13	0.00	3,148.13

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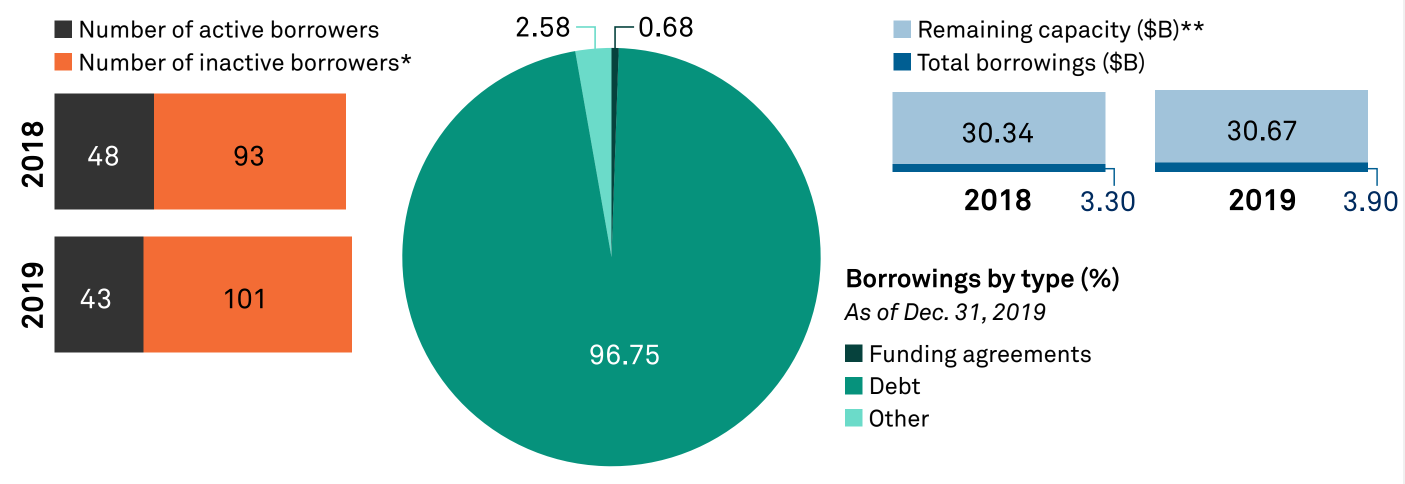
FHLB borrowings by P&C insurers



Largest FHLB borrowers at year-end: P&C group level	2019 ($M)	2018 ($M)	YOY change (%)	Capacity ($M)
American Family Insurance	1,000.00	500.86	99.66	1,000.00
MetLife	800.00	800.00	0.00	3,385.59
CopperPoint Insurance Cos.	300.00	0.00	NM	375.85
MGIC	155.00	155.00	0.00	155.00
State Compensation Insurance Fund	149.52	129.16	15.76	731.57
Largest FHLB borrowers at year-end: Individual entity level				
American Family Mutual Insurance Co. SI	1,000.00	500.00	100.00	1,000.00
Metropolitan P&C Insurance Co.	800.00	800.00	0.00	3,385.59
CopperPoint Insurance Co.	300.00	0.00	NM	375.85
Mortgage Guaranty Insurance Corp.	155.00	155.00	0.00	155.00
State Compensation Insurance Fund	149.52	129.16	15.76	731.57

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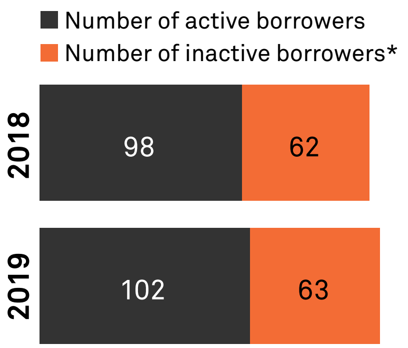
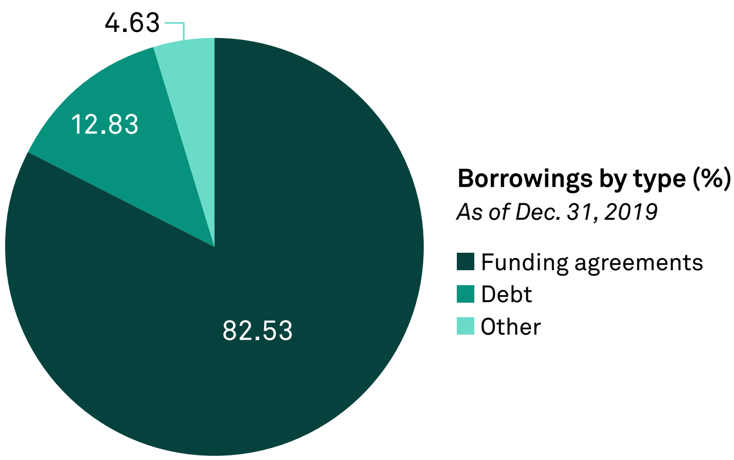
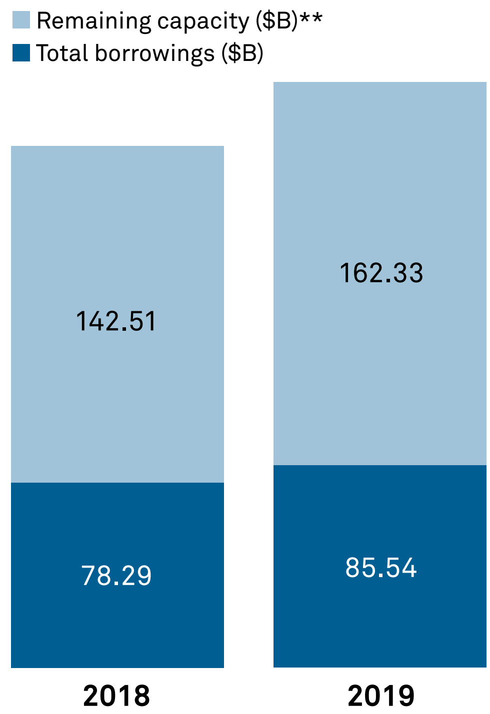
FHLB borrowings by life insurers and fraternal benefit societies







Largest FHLB borrowers at year-end: Life group level	2019 ($M)	2018 ($M)	YOY change (%)	Capacity ($M)
MetLife	15,320.00	15,120.00	1.32	26,054.08
Equitable Holdings	6,900.42	3,990.42	72.92	10,300.00
Principal Financial Group Inc.	4,010.92	3,512.21	14.20	10,900.00
Sammons Enterprises Inc.	3,599.15	3,599.15	0.00	26,618.07
Lincoln Financial	3,580.00	3,930.00	-8.91	3,830.00
Largest FHLB borrowers at year-end: Individual entity level				
Metropolitan Life Insurance Co.	14,445.00	14,245.00	1.40	19,475.41
Equitable Financial Life Insurance Co.	6,900.42	3,990.42	72.92	10,000.00
Principal Life Insurance Co.	3,580.00	3,930.00	-8.91	3,830.00
Lincoln National Life Insurance Co.	3,148.13	3,148.13	0.00	5,296.00
American General Life Insurance Co.	2,832.12	3,583.98	-20.98	8,832.02

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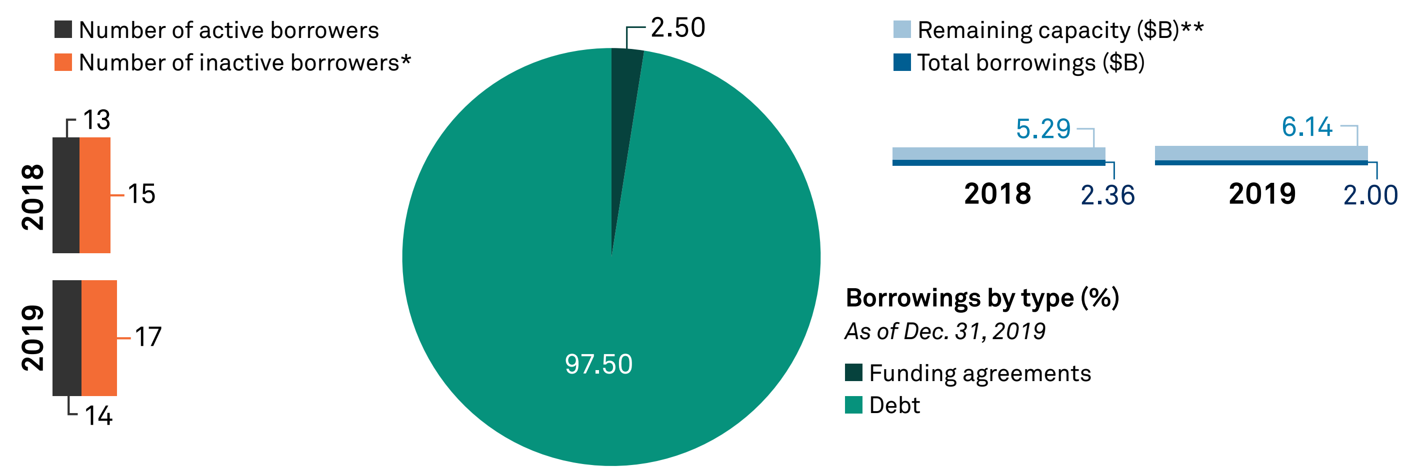
FHLB borrowings by title and managed care companies



Largest FHLB borrowers at year-end: Group/top-tier level	2019 ($M)	2018 ($M)	YOY change (%)	Capacity ($M)
Anthem Inc.	600.00	555.00	8.11	782.30
HCSC	549.10	823.30	-33.30	1,750.00
Blue Cross Blue Shield of Michigan	345.24	475.36	-27.37	2,093.46
Blue Cross Blue Shield of Arizona	250.00	25.00	900.00	548.30
Blue Cross Blue Shield of Massachusetts	200.00	200.00	0.00	200.00
Largest FHLB borrowers at year-end: Individual entity level				
Health Care Service Corp.	549.10	823.30	-33.30	1,750.00
Blue Cross Blue Shield of Michigan	295.24	425.36	-30.59	2,000.00
Blue Cross Blue Shield of Arizona	250.00	25.00	900.00	548.30
Anthem Insurance Cos. Inc.	150.00	145.00	3.45	150.00
Community Insurance Co. (OH)	150.00	0.00	NM	180.47

Data compiled April 20, 2020.
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 2019 annual statements as filed with the National Association of Insurance Commissioners. Data is limited to those entities for which 2019 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, 2019, 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, 2019. Borrowing capacity is estimated by the individual insurer.
Credit: Cat Weeks
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