State insurance regulators say U.S. government ignored them in MetLife case

Lisa Lambert

August 23, 2016

State insurance regulators in a court brief on Monday said a powerful U.S. council made up of the heads of all the federal financial regulatory agencies disregarded their work when it designated of MetLife Inc. (MET.N) as "too big to fail."

MetLife, the largest U.S. life insurer, sued the federal government last year after the Financial Stability Oversight Council designated it a systemically important financial institution. That label can lead to additional regulation and capital requirements.

U.S. District Judge Rosemary Collyer decided in March to rescind the designation and the U.S. government is currently appealing her decision.

In the brief supporting MetLife, the National Association of Insurance Commissioners said the council appeared to ignore or discount the state regulatory system, state regulators' opinions, and the council's insurance expert "in favor of speculation, assumptions about consumer and regulatory responses to distress that have no basis in fact or history, and a flawed analysis of the insurance business and its regulation."

Unlike many other financial products, insurance is regulated at the state level. When Congress established the FSOC in the 2010 Dodd-Frank Wall Street reform law in order to ward off another major financial crisis, it gave a seat to an insurance expert. That expert, Roy Woodall, voted against designating MetLife as systemically important.

NAIC said MetLife's subsidiaries are subject to extensive regulation and states can review many of its holding company transactions. It also said that due to the nature of insurance contracts, the company will probably not experience a "run on the bank."

"MetLife is a highly regulated company and the existing regulation has served the company and its policyholders well," the commissioners said.

Only four non-banks have been designated systemically important. Two others, American International Group (AIG.N) and Prudential Financial, Inc. (AIG.N), are also insurers.

The American Council of Life Insurers, which represents the country's major insurance companies, including MetLife, said in a separate brief also filed on Monday that the council was wrong in treating insurers in a similar manner as banks.

It said policyholders do not use life insurance for liquidity and the gradual maturity of companies' contracts means they do not have to have "fire sales" of assets to pay policies.

The U.S. Chamber of Commerce, the Washington Legal Foundation and the Cato Institute, a conservative think tank, along with a panel of eight academic experts, also filed briefs supporting MetLife.