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Minneapolis Fed's Ending TBTF Symposium
Sept 26, 2016

Thank you, Neel, for that kind introduction – and for the invitation to speak today. I am pleased to be here.

I applaud the Minneapolis Fed for organizing this series of symposia. These are timely and important discussions, and I'm happy to be part of them.

In focusing on the Too Big to Fail issue, these symposia are ultimately addressing the broader question of how to ensure the resiliency of our financial system.

Typically, such discussions look at the question from the regulator's point of view – asking what regulations and laws best support the goal of a stable and resilient system.

Today, I will speak from a different vantage point – that of the regulated.

Specifically, I will share my perspective as CEO of TIAA, a nearly 100-year-old financial services organization that provides retirement plans and other financial products and services to people and institutions in the academic, medical, research and cultural communities.

TIAA is an insurance-centric business, meaning that the overwhelming majority of our business is in insurance products. While we are not a bank, we do hold a thrift institution.

The complexity of our structure is met with a complex web of regulatory oversight:

- Historically, insurance has been regulated at the state level. Our charter is held by New York's insurance regulator, the New York Department of Financial Services.

- Our status as a savings-and-loan holding company places us under the purview of the Federal Reserve Board.

- Under the TIAA umbrella are subsidiaries that include investment companies regulated by the Securities and Exchange Commission and broker-dealers subject to the oversight of FINRA, a self-regulatory organization.

- Our thrift institution is regulated by the Office of the Comptroller of the Currency.

- Additionally, our products and services are regulated by the states in which we do business.

Each of these regulators plays an important function. We have experienced that having strong relations with them has driven improvements across our organization, in realms as diverse as internal oversight, operating models, documentation, staffing, and audit.

From that vantage point and given the interconnectedness of the financial services sector, we at TIAA support a robust and comprehensive regulatory regime for the sector. We support efforts to improve oversight aimed at financial stability and ensuring the safety and soundness of financial institutions.

But we analyze regulation through the prism of a firm predominantly engaged in insurance. Accordingly, we believe it's essential to ensure that regulators do not apply bank-centric frameworks to non-banks.

Rather, regulation should recognize that insurance-centric financial institutions like ours have very different businesses, roles, and structures than banks.

Often, though not always, the differences among institutions should drive distinctions in the regulatory approach.

Such a tailored approach is essential for maintaining our country's diverse financial services ecosystem of banks, insurance companies, asset managers, investment advisors, and broker-dealers.

In the natural world, we know that diverse ecosystems are stronger. They can better withstand and recover from all types of threats and disasters.

The same is true for our financial ecosystem. There too, diversity supports resilience, which after all is the ultimate goal of financial regulation.

Given that principle, TIAA has long been an active participant in the public policy debate – including around the events of 2008. We are committed to working closely with regulators, and that includes their work to ensure that failure in any one area of the system doesn't threaten the system itself.

None of us ever wants to return to the dark days of 2008 financial crisis.

In my view, our nation has made significant progress toward that goal. For instance:

- Reduced leverage (both on and off balance sheet), and increased capital requirements have stabilized the nation's largest banks and, as I'll discuss in a moment, the Fed is now tailoring capital standards for insurance-centric financial institutions.

- The derivatives market is far more transparent than it has ever been.

- The specter of "Too Big To Fail" has been targeted by the FDIC's single-point-of-entry strategy – and I know the Minneapolis Fed will also be proposing actions later this year as an outgrowth of these symposia.

To be sure, there is more to do. And as our nation strengthens our system of financial macroprudential regulation, it's important that regulations recognize and respect the distinctions among financial institutions – and in this way support the continued diversity of our financial ecosystem.

With that as the backdrop, my remarks today will cover three areas:

First, I'll discuss the fundamental differences between financial institutions that are banks and those that are insurance-centric – which I will just call insurers[i]

Second, I'll outline three particular areas where banks and insurers require a different regulatory approach.

And finally, I'll highlight two areas that should be approached the same way for all types of institutions in the financial services sector.

I look forward to your questions and comments after my talk.

DIFFERENCES BETWEEN BANKS AND INSURERS

My first point is that banks and insurers are very different businesses, with fundamentally different business models, balance sheets, revenue streams, and customer value propositions. These differences have significant implications for how each should be regulated.

Back in 1982, the president of the Minneapolis Fed, Jerry Corrigan, wrote an influential essay titled "Are Banks Special?" His essay answered that question in the affirmative, identifying the factors that distinguish banks from all other financial institutions.

Much has changed in banking since then, but banks' core business has not. Fundamentally, it remains lending and maturity transformation – connecting savers to borrowers.

Insurers have a different mandate. They enable consumers and businesses to reduce their exposure to risk. They do this through products like term life insurance, which protects against the risk of dying too soon, and annuities, which protect against the risk of outliving retirement savings.

There are five distinct features that make insurers different from banks:

- First, insurer's liabilities are typically stable and relatively illiquid.
    - Insurance products generally require that policyholders pay premiums in exchange for a legal promise that is often settled years in the future. These policy obligations are counted as liabilities on their balance sheets. Because they are predetermined, they tend to operate independently of the business cycle, since the payout schedule generally is not a function of economic conditions.
    - In contrast, banks count consumers' deposits as liabilities – and these deposits can typically be accessed immediately by depositors.
- Second, insurance products serve long-term savings and asset protection goals – goals that are fundamentally different from the typically short-term objectives of bank depositors.
- Third, because of their long-term liabilities, insurance companies invest for a longer duration than banks.
    - This affords insurers far greater freedom than banks to choose when to sell assets, or simply let assets mature.

  - Insurers are unlikely to be forced to liquidate assets to satisfy short-term obligations in times of economic difficulty or market disruption, as is common among traditional banking entities.

- Fourth, the business of insurance is built on sound, well-tested, and proven principles of actuarial science. Reserves are based on assumptions that are reasonably conservative. They include provisions for the risk of unfavorable deviation from those assumptions, including mortality, interest rate changes, withdrawals, and expenses. Insurers apply this discipline to a large range of uncertain events in their long-dated portfolios.

- Fifth, insurance companies are a significant source of long-term, stable funding for the corporate, real estate, and governmental sectors of the economy. By contrast, banks can be considered primarily a source of short-term financing to these sectors.

3 AREAS THAT REQUIRE A TAILORED APPROACH

With those differences in mind, I would now like to address three areas that warrant a different regulatory approach between banks and insurers.

The first area is capital standards.

Bank capital requirements should reflect the mismatch between short-term liability and long-term assets, which ultimately can create a “run risk.”

By contrast, insurer capital requirements should focus on an insurer’s claims-paying ability.

I’m pleased to say that the Fed now recognizes that a bank-centric approach to capital is not appropriate for insurers.

In June, the Fed released a blueprint regarding capital requirements for Fed-supervised institutions that are insurance-centric. That conceptual blueprint aims to ensure that insurers keep adequate capital to guard against insolvency or excessive borrowing during periods of market and economic turmoil.

The proposal adopts a “building block” approach that recognizes insurers’ needs for long-term assets that match long-term guaranteed products.

The approach would aggregate existing capital requirements across a firm’s different legal entities to arrive at a combined, group-level capital requirement. This would be subject to adjustments to ensure consistency across the regulatory capital frameworks of each legal entity.

The Fed has proposed to apply this building block approach to TIAA and the 11 other non-SIFI insurance companies that own a bank or thrift – and are thus subject to the Fed’s oversight.

This is a welcome change from the Fed’s initial approach, which would have mandated that insurers follow rules along the lines of bank-centric Basel III capital measures. The problems would have been significant:

- Imposing a capital framework that was designed to address the maturity mismatch inherent to banking would have created an investment portfolio construction challenge for insurers where none previously existed.

- It would have required insurers to hold unnecessary and inefficient levels of capital.
- It would likely have encouraged insurers to modify certain practices and strategies that would be detrimental to their core activities and stability.
- Together, these issues would have created a competitive disadvantage for Fed-regulated insurers relative to peer companies that are not Fed-regulated.
- Further, the approach would have created regulatory confusion by layering bank-centric capital and accounting standards at the federal level onto existing insurance standards enforced at the state level.

Fortunately, Congress enacted a statutory clarification, and extensive consultation between the industry and the Fed's experts cleared the path for great progress.

The second area that requires a different approach is stress testing.

Because banks and insurers have fundamentally different business models, the nature and structure of how risk manifests itself is different for each.

Banks manage risk by diversifying to avoid overexposure to any one set of risk factors. Insurers manage risk by aggregating it and matching the duration of their assets and liabilities.

Since the drivers of risk differ for banks and insurers, their stress testing frameworks must differ too.

You wouldn't use a ruler to measure the volume of a container of water. In the same way, it would be unwise to try to stress test a financial institution using metrics that fail to account for the fundamental economic characteristics that guide its activities.

Again, the distinctions between insurers and banks are significant.

Insurance companies largely use statutory accounting as a stress-testing framework, and insurance products include, in many cases, long-dated time horizons and risks that may include minimum interest rate guarantees, mortality or longevity risks, and policyholder behavior risks in addition to economic and financial risks.

For insurance-centric firms, a substantial amount of liabilities are typically illiquid, and thus less prone to liquidity risk. Stated differently, illiquid liabilities are a risk mitigant.

In contrast, banks' stress tests must focus on issues like credit risk in commercial lending and "run-on-the-bank" scenarios to ensure that banks have enough liquidity to survive a crisis.

These types of measures are much less relevant and useful in evaluating insurers' ability to withstand economic stress.

As I've stated before, insurers ***provide*** liquidity – and the issue they face is solvency.

Note that the Comprehensive Capital Analysis and Review regulatory stress testing framework for banks has just a 13-quarter time horizon. By contrast, insurance-centric firms can have a significant amount of payout annuity liabilities that extend for 50 or more *years*.

The third area that requires a different approach is the consideration of SIFI designation.

The issue of systemic risk is inherently different between banks and insurers.

As I have mentioned, banks must mitigate liquidity risk – in other words guard against a bank run. The concern about insurers is focused on their ability to fulfill their long-term promises to policyholders.

And so when the FSOC considers insurers for SIFI designation, the process should be tailored to take into account actual systemic risks posed by insurance companies.

The FSOC should acknowledge a few key points:

- The balance-sheet structure of insurers is economically stable.
- The matching of assets and liabilities means that insurers are not faced with "fire sales" of assets and disintermediation risk that can destabilize the system as in the case of banks.
- And in difficult times, insurers provide liquidity while banks take liquidity.

The reality is that traditional insurance itself is not systemically risky. And unlike banks, the size of an insurer is hardly a good proxy for the potential for causing systemic risk.

In this regard, TIAA supports congressional efforts to bring more transparency to the SIFI designation process for nonbanks.

And as a significant asset manager, we are particularly sensitive about the potential move to designate individual asset managers or funds as SIFIs.

TIAA believes that in the case of asset managers, an activities-based approach is an exceedingly more effective means of addressing risk.

In our view, the SEC already has the expertise and regulatory tools necessary to take on this task. In fact, the SEC is considering new rules for the industry on areas as diverse as data collection, liquidity risk management, derivatives use, stress testing, and transition planning.

A final point on the issue of systemic risk.

Business and risk model diversification is an important element in reducing systemic risk. Actions that increase the correlation of different companies' business and risk models will tend to increase systemic risk.

That's another concern with bank-centric regulations being imposed on insurers.

Regulations that encourage the synchronization of the investment and risk management models of banks and insurers will increase their correlation – and reduce systemic resiliency.

TWO AREAS THAT WARRANT THE SAME APPROACH

I will now briefly address two areas that should be approached the same way across the financial services sector.

The first is risk management

As is abundantly clear, lax risk management was among the key drivers of the 2008 financial crisis.

Since that time, the financial services sector has made many improvements in risk measurement, risk management, and oversight. Many firms – both banks and insurers – have increased board engagement around risk, bolstered their risk leadership and infrastructure, and improved the link between risk management and strategy.

Such progress is welcome. But there's more to be done.

Strong enterprise-wide risk management is essential, and it takes an unwavering commitment in the face of a constantly changing economic, political, and market environment.

Firms should endeavor to continue building strong risk management cultures. They must effectively incorporate good risk management into decision-making processes at every level. Management, the board, and business units should all be aligned around risk policies, processes, and strategies.

The second area that demands a common approach involves how the financial services sector serves individuals.

We at TIAA believe that all financial firms should place their customers' best interests at the center of what they do.

At TIAA, putting the customer first has always been one of our core values. So we have been supportive of the Department of Labor's Fiduciary Rule, which was finalized in April.

When it is implemented, the rule will make "putting the customer first" an industry standard for retirement savers.

It will also fundamentally overhaul ERISA's fiduciary paradigm, ushering in the most significant changes in a generation to ERISA financial services regulation.

One of the most important aspects of this rule relates to IRA rollovers.

It will make individualized distribution advice – including whether to roll over from a defined contribution plan or another IRA – subject to the same fiduciary standard as all other investment advice. This will ensure that rollover discussions are always in the customers' best interest.

We commend and support the DOL's efforts.

CONCLUSION

I will close now with a recap of what I've discussed today:

- First, there are fundamental differences between banks and insurers, and it's important that regulations respect and reflect those differences, to maintain the diversity of our financial ecosystem and bolster the resiliency of our financial system;

- Second, a tailored regulatory approach is particularly important in the areas of:

    - Capital standards
    - Stress testing
    - Designating institutions as systemically significant

- And finally, two areas that should be approached the same way across the sector are risk management and putting the customer first.

Thank you, and I will now open the floor to your questions and comments.

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[i] Recently, the Federal Reserve Board suggested that an SLHC is "insurance centric" if it holds "25 percent or more of its total consolidated assets in insurance underwriting subsidiaries (other than assets associated with insurance underwriting for credit risk)." Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities, June 14, 2016.