January 12, 2024

Via: Federal eRulemaking Portal: www.regulations.gov ("Docket ID OCC-2023-0008")

Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Jay Powell
Chair
Board of Governors of the Federal Reserve System
2051 Constitution Avenue, N.W.
Washington, D.C. 20418

Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Notice of Proposed Rulemaking with regards to Regulatory Capital Rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity
"Docket ID OCC-2023- 0008"

Dear Acting Comptroller Hsu, Chair Powell, and Chairman Gruenberg:

Thank you for your service and for the opportunity to comment on the Notice of Proposed Rulemaking ("proposal") related to "Regulatory Capital Rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity."

Since 1957, Finseca (previously called AALU) has been the leading organization of financial professionals who provide life insurance and retirement planning solutions for individuals, families, and businesses.

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Our more than 9,000 members nationwide are financial security professionals who focus on life insurance, annuities, and investments for long-term financial planning, retirement, charitable giving, deferred compensation, and employee benefit services. Life insurance products offer essential benefits to 90 million American families and thousands of businesses—providing protection, financial security, and peace-of-mind.

Finseca's membership includes specialists who are leading advisors to banking institutions of all sizes throughout the U.S. that own and use life insurance for critical financial and retirement security needs. America's banks have long relied on the stability of life insurance as a tool for long-term risk management, including cost recovery associated with providing employee benefits. These benefits and efficiencies have long been recognized by Congress and Banking Regulators.

Finseca's comment on the proposal is limited to the treatment of mutual life insurance companies, and the effect on the marketplace for bank-owned life insurance ("BOLI").

We are writing to convey our concerns on the proposal's arbitrary discrimination against highly rated life insurance companies based solely on their ownership status. We believe this approach will cause significant and irreparable harm to the banking marketplace. We request that corporate exposures to all investment-grade life insurance companies, whether mutual holding companies or publicly traded, be treated equally and receive a risk weight no higher than 6

F ce for BOLI issued by a publicly traded carrier or a mutual one, h ey should be treated equally under your proposal to ensure capacity, c

The proposal would impose different risk weights for corporate exposures to publicly traded companies compared to non-publicly traded companies. More specifically, the risk weight for an investment grade publicly traded company would generally be 65%, while the risk weight for corporate exposures to non-publicly traded companies would be 100%, regardless of their financial strength.

The Proposed Regulatory Capital Rule states:
"Under the proposal, a banking organization would assign a 65 percent risk weight to a corporate exposure that is both (1) an exposure to a company that is investment grade, and (2) where that company, or a parent that controls that company, has publicly traded securities outstanding.96 This two-pronged test would serve as a reasonable basis for banking organizations to identify exposures to obligors of sufficient creditworthiness to be eligible for a reduced risk weight. The definition of investment grade directly addresses the credit quality of the exposure by requiring that the entity or reference entity have adequate capacity to meet financial commitments, which means that the risk of its default is low and the full and timely repayment of principal and interest is expected.

“A banking organization’s investment grade analysis is dependent upon the banking organization’s underwriting criteria, judgment, and assumptions.

The proposed requirement that the company or its parent company have securities outstanding that are publicly traded, in contrast, would be a simple, objective criterion that would provide a degree of consistency across banking organizations. Further, publicly-traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange. A banking organization would use these simple criteria, which complement a banking organization’s due diligence and internal credit analysis, to determine whether a corporate exposure qualifies as an investment grade exposure.”

The Proposed Regulatory Capital Rule asks:

“Question 39: For what reasons, if any, should the agencies consider applying a lower risk weight than 100 percent to exposures to companies that are not publicly traded but are companies that are “highly regulated?” What, if any, criteria should the agencies consider to identify companies that are “highly regulated?” Alternatively, what are the advantages and disadvantages of assigning lower risk weights to highly regulated entities (such as open-ended mutual funds, mutual insurance companies, pension funds, or registered investment companies)?”

W[redacted]o establish a "simple, objective criterion that would provide a degree of c[redacted]ng organizations,” it favors a specific type of life insurance company s[redacted] structure. This is arbitrary and discriminatory. The lower risk weight a[redacted]plied based on the health and financial strength of the insurance c[redacted]ing publicly listed or a mutual company. Such an approach would achieve the goal of the proposed regulations to accurately measure risk. Such an approach would also avoid harming the availability of adequate offerings of BOLI from a diversity of carriers for banks seeking the benefits of BOLI.

In addition, in the largest BOLI cases (like those employed by the banks your proposal seeks to regulate), the insurance is often split between several different carriers to diversify the exposure to any single carrier, similar to prudent diversification rules employed in other parts of the bank’s portfolio. If your proposal went through as written, it would reduce the number of carriers who offer BOLI to these banks.

Like all other life insurance companies, mutual life insurance companies are highly regulated; transparent; financially strong and to discriminate against them solely based on ownership structure is without merit; and will negatively impact the BOLI marketplace and banking system.

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- **All U.S. life insurance companies, including mutually held, are highly regulated** at the State level to ensure they are financially strong and able to fulfill their long-term commitments to customers. State insurance regulators use methods like financial examinations, statutory financial reporting, risk-based capital requirements and compliance audits to safeguard policyholder interests and ensure that insurance companies maintain financial stability and regulatory compliance. Mutual insurance companies typically uphold conservative reserve and capital requirements relative to their peers. Given the robust State oversight, it seems inconsistent for the proposal to selectively apply lower risk weight assignment to only a portion of the industry.
- **All U.S. life insurance companies are financially transparent.** In the U.S., both publicly traded and mutual life insurers are obligated to submit audited financial reports as per State regulations. These detailed reports, available to the public, offer a clear view of a company's financial health. State insurance regulators closely oversee solvency and risk capital requirements to ensure that insurers maintain enough capital to cover potential liabilities and remain financially solvent. The proposal's assertion that only "publicly-traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange," overlooks the existing robust reporting mechanism to State insurance regulators that provide comprehensive financial data for all insurers, whether or not publicly traded. The proposal's argument for a different risk weight assignment based on company ownership is unjustified.
- **ce companies are "highly rated" and have some of the highest** utually held life insurance companies have a well-established history omises to the company's owners, namely, the policyholders. ing to evaluations by major credit rating agencies like Moody's, S&P ch and AM Best, mutual life insurance carriers consistently receive the highest ratings, indicating low risk, positive financial standing, and stability, regardless of ownership. Nevertheless, the proposal would assign a risk weight for corporate exposures to such financially strong, investment grade life insurers that is over 50% higher than exposures to their publicly traded peers by focusing solely on ownership structure. This approach clearly does not align risk weights with creditworthiness, contrary to the proposal's stated intent.
- **The Proposal would negatively impact the BOLI marketplace and banks** by reducing the life insurers and products available. The proposal would reduce the capacity to underwrite BOLI for banks that want it by reducing or eliminating the role that mutual insurers play in the market. Finseca members who provide BOLI solutions have expressed significant demand for reputable BOLI issuers, where demand often exceeds supply. This demand encompasses both mutual insurance companies and publicly traded carriers. In fact, banks typically acquire and retain BOLI policies from various carriers, often opting for a combination of policies issued by both publicly traded and mutual life insurance companies, to diversify the risk portfolio in their pool.

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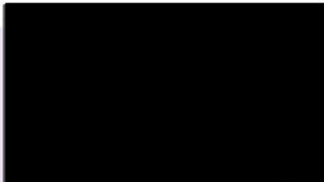
However, the proposed risk weight factors that show preference for one type of issuer over the other, could potentially diminish the accessibility and availability of high-quality BOLI products. Banks may be compelled to reject or decrease their current holdings of investment-grade, financially robust BOLI policies issued by mutual insurance companies due to the significant differential in risk weights, resulting in less diversified bank portfolios.

The proposed regulation specifically asks for comments on how mutual insurance companies should be treated under these rules, presumably under the recognition that there are likely grounds to treat such companies differently than other non-publicly traded companies that are not similarly regulated.

Mutual insurance companies should be treated similarly to publicly traded insurance companies, and ask that the same, lower risk weight be assigned for corporate exposures to all investment grade life insurers, regardless of ownership structure.

We welcome the opportunity to further discuss these comments. Please feel free to contact me at (202) 772-2493, or arobinson@finseca.org.

Respectfully submitted,



Armstrong Robinson
Chief Advocacy Officer