



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

ANNETTE E. FLOOD
DIRECTOR

January 5, 2015

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt:

I am the Director of Captives for the State of Michigan, one of the leading domiciles of captive insurance companies in the Midwestern United States.

I am writing to express concerns about the notice of proposed rulemaking regarding membership eligibility in the Federal Home Loan Banks issued by the Federal Housing Finance Agency (FHFA). Specifically, I am concerned with the proposal to exclude captive insurers from membership and to evict current Federal Home Loan Bank member institutions that are captive insurance companies.

Currently, Michigan is home to six captive insurance companies that either are members of the Federal Home Loan Bank of Indianapolis (FHLBI) or have applications filed seeking membership status. All of these six Michigan licensed captives stand to have their operations negatively impacted by this sudden change in membership standards. To my knowledge, those captive insurance companies that are members of the FHLBI are members in good standing. Those licensed captive insurance companies domiciled in Michigan that are in the process of seeking membership are owned by very reputable and sound financial institutions well known to the financial community.

While I respect and acknowledge your entity's right to regulate its members in such a manner as it sees fit, this proposal to exclude captive insurers from membership seems to be an answer to a problem that doesn't exist. Since 1932, what problems have captive insurance company members caused to the Federal Home Loan Bank system? In contrast to "traditional" insurance companies, very few captive insurance companies experience the financial difficulties that result in receivership. You also state that a captive's balance sheet "may reflect" a non-diversified risk. First of all, I would assume that both the insurance regulator and the FHLB branch management team would address any such issue if it was a true concern. Secondly, I would imagine that many of your non-captive member's balance sheets are non-diversified. So with regard to safety and soundness, you have failed to make a case.

I acknowledge the lack of industry ratings for captive insurance companies. Since captives in most cases only insure affiliated risk, there is simply no benefit to the captive or its parent to spend money to be rated. And while some rating organizations offer beneficial services, most insolvent traditional insurance companies had at one time or another received a solid rating from at least one rating organization. I understand that FHLB branch management and state insurance regulators may use different tools to gauge a prospective member's financial condition. Perhaps the FHFA's discomfort with the lack of captive ratings could be overcome by having a collaborative relationship with insurance regulators.

We take our responsibility as a regulator seriously. In Michigan, captive insurance companies are regulated in a manner very similar to that of traditional insurance companies. Captives go through a rigorous licensing process. Captives are required to have an actuary feasibility study that analyzes the reasonableness and adequacy of proposed rates and policies. Once licensed, captives must file an annual report complete with an actuarial opinion on the adequacy of the established loss reserves. Captives are also required to be examined on-site. Indeed, Michigan has recently contracted with well-known firms to assist us in both captive examinations and actuarial reviews. These contracts total up to a half-million dollars.

Keep in mind that some insurance experts believe that 30-40% of all insurance risks are now handled by the alternative versus traditional market. Captives have existed for several decades and they aren't going away anytime soon since they serve a valuable purpose to their owners. Rather than ostracize and exclude captive insurance companies, the FHFA should welcome them as long as they meet the existing standards for membership.

Thank you for your time.

Yours truly,



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