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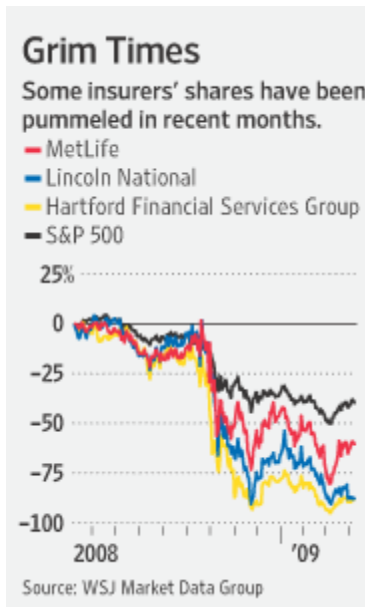
U.S. to Offer Aid to Life Insurers

Firms Face Capital Crunch; How Much They Will Get From TARP Remains Unclear

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The Treasury Department has decided to extend bailout funds to a number of struggling life-insurance companies, helping an industry that is a linchpin of the U.S. financial system, people familiar with the matter said.

The department is expected to announce the expansion of the Troubled Asset Relief Program to aid the ailing industry within the next several days, these people said.



The news will come as a relief to a number of iconic American companies that have suffered big losses made worse by generous promises to buyers of some investment products. Shares of life insurers have fallen more than 40% this year. Their troubles led to a string of rating-agency downgrades that, in a vicious cycle, made it more difficult for some insurers to raise funds.

The life-insurance industry is an important piece of the U.S. financial system. Millions of Americans have entrusted their families' financial safety to these companies, so keeping them on solid footing is crucial to maintaining confidence. If massive numbers of customers sought to redeem their policies, it could cause a cash crunch for some companies. And because insurers invest the premiums they receive from customers into bonds, real estate and other investments, they are major holders of securities. If they needed to sell off holdings to raise cash, it could cause markets to tumble.

The decision by the Treasury Department adds a third industry to the banks and auto companies that have already received bailouts from the government. While American International Group Inc. is a major insurer and is the biggest recipient of government money, its problems weren't caused by its life-insurance operations, but derivative bets that went bad.

Only insurers that own federally chartered banks will qualify for the program. Treasury had said last year that life insurers could be eligible for TARP funds if they owned bank-holding companies, but it hadn't officially decided to give funds to these companies as it focused much of its energies on banks and auto makers.

The life-insurance companies will have access to Treasury's Capital Purchase Program, which injects funds into banks. How much money would now be available to the insurers, and which particular insurers would be beneficiaries, remains unclear. The Treasury says it has about \$130 billion remaining in TARP money. A number of life insurers, including [Hartford Financial Services Group](#) Inc., [Genworth Financial](#) Inc. and [Lincoln National](#) Corp., struck deals last fall to buy regulated savings and loans so they could call themselves banks

and qualify for government funds. Hartford and Lincoln have applied for TARP funds. Genworth said it has applied with the Office of Thrift Supervision to approve its thrift purchase as a step toward gaining access to the federal funds.

[Prudential Financial](#) Inc., which owned a thrift before the crisis struck, has also applied for the funds. [MetLife](#) Inc., the biggest publicly traded insurer by assets, owned a federally chartered bank before the crisis struck. It has not commented on whether it has applied for TARP money. "We look forward to the official word from Treasury," said Whit Cornman, a spokesman for the American Council of Life Insurers.

As life insurers waited for months to learn whether they would get federal funds, many resorted to contortions to bolster capital. Hartford recently said it plans to infuse \$20 million into a cash-strapped Florida thrift it agreed to purchase for \$10 million to qualify for federal aid under TARP. Hartford has estimated that it would be eligible for \$1.1 billion to \$3.4 billion in funds if Treasury accepts its application.

Not all insurers have been openly struggling, and some retain triple-A ratings, including Massachusetts Mutual Life Insurance Co., New York Life Insurance Co., Northwestern Mutual Life Insurance Co. and TIAA-CREF. Life insurers had for a time seemed to be somewhat immune from the credit crisis, since they tend to invest in relatively safe assets in order to match their liabilities. These companies got into trouble for two main reasons, both tied to the weak financial markets.

First, many of the roughly two dozen insurers that dominate the variable-annuity business made aggressive promises on these popular retirement-income products, guaranteeing minimum returns, no matter what happened to the stock market. With the market's decline, the issuers are on the hook for big payouts, though most of the payments won't come due for 10 or more years. Second, the insurers also have lost money on the investments in bonds and real estate that back their policies.

Insurers own 18% of all corporate bonds outstanding, according to the American Council of Life Insurers, and investors have been warily watching trading patterns in some securities for signs of a liquidation. For example, a bond issued by Jeffries & Co., a securities firm, has fallen in value recently though the company is healthy. Traders have noted that the biggest holders of that bond are insurers. TARP funds won't necessarily mean the industry is out of the woods. A steep fall in the stock market would put a great deal of pressure on companies with sizable variable-annuity businesses, because they must set aside funds to meet their obligations. While stocks have recovered somewhat recently, easing pressure on insurers, another swoon could revive concerns about their capital.

Many life insurers also hold large portfolios of residential mortgage and commercial real-estate assets. While most of the assets are highly rated, further downgrades of those assets could put considerable pressure on insurers, forcing them to take additional write-downs.

Access to TARP funds should provide significant breathing room to life insurers, helping them avoid further credit-rating downgrades and the need to raise capital under onerous terms. That, in turn, could be good news for capital markets. Due to their capital constraints, some insurers have been hoarding cash rather than purchasing bonds, adding to market stresses.

It remains to be seen whether extending funds to insurers will spark the kind of populist anger that accompanied assistance to banks and auto makers. Consumers may be relieved to see a boost to some of the companies they count on for their financial security.

The action comes with members of the House and Senate away from Washington on a two-week recess, which should initially damp criticism from lawmakers of both parties who are fatigued over the seemingly unending government bailouts. Members of the House voted this spring to impose a punitive tax on bonuses paid by AIG, while members of the Senate went on record demanding greater disclosure of Federal Reserve efforts to rescue banks.

Any life insurer that gets TARP funds will have to comply with the strict executive-compensation rules required by Congress.