



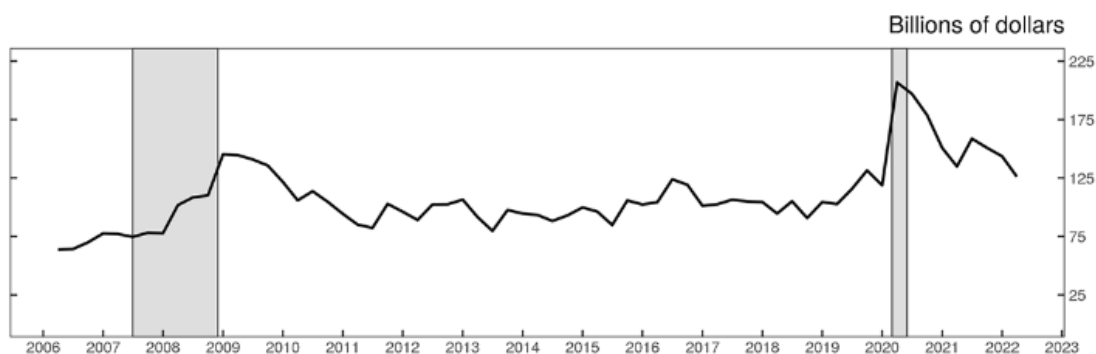
Providing Insurance Members Liquidity

Helping Insurers Stay Fully Invested

Investing profitably, while still having access to liquidity when needed, is an ongoing challenge for insurance companies. Life insurers manage their cash flows tightly and keep cash holdings to a minimum in normal times. Excess cash holdings are wasteful to life insurers because most of their liabilities are long term with predictable cash flows. Property Casualty and Health insurers have pressure to have liquidity on-hand due to potential unpredictable cash flows but need to maximize earnings. During periods of rising rates, optimal sources of liquidity do not come from security sales. Having access to reliable liquidity sources, the ability to pledge a variety of investment types, and staying fully invested is a benefit of having FHLBank membership.

In normal times, the life insurance industry manages its cash flows tightly. A FEDS Notes, August 23, 2022, [“How Do U.S. Life Insurers Manage Liquidity in Times of Stress?”](#) piece reviewed liquidity sources for life insurance companies, including their use of FHLBank advances. Despite holding more than \$5 trillion in assets, cash holdings are typically around \$100 billion, or only about 2 percent of life insurers' general account assets. By comparison, commercial banks' cash holdings are typically about 15 percent of their total assets. Life insurers minimize their cash holdings because of the long-term nature of their liabilities. The average duration of their liabilities is around 20 years. Thus, the opportunity cost of holding cash is especially high for life insurers.¹

Figure 1. Life insurers' cash holdings: "net cash, cash equivalents, and short-term assets" in statutory filings



Note: The shaded regions indicate periods of stress for life insurers (2007:Q2—2008:Q4 and 2020:Q1—2020:Q2).

Why do insurers use FHLBank funding instead of selling securities?

¹ [Fed Notes](#)

Based on the current FHLBank Indianapolis Credit Policy², members the ability to access funds by posting a wide variety of potential collateral. This allows access to liquidity without selling income-earning securities or selling at a loss. Below is a listing of current haircuts provided on a variety of eligible collateral. Insurance members would be posting under Physical Possession but would have options related to whether securities are safekept at the FHLBank Indianapolis or at eligible third-party custodians.

Standard Over-Collateralization Requirements (OCR)			
Qualifying Collateral to Secure FHLBank Indianapolis Credit	Reporting Method		
	Blanket Reporting	Specific Listings	Physical Possession
	OCR applied to current	OCR applied to market value	OCR applied to market value
Category 1			
1 to 4 Family, Whole First Mortgage Loans	140%	125%	125%
1 to 4 Family, Whole First Mortgage Loans - FHA/VA	140%	120%	120%
Category 2			
Government and Agency Securities			
Treasuries & Agency Debt (<3 years to maturity)	N/A	N/A	103%
Treasuries & Agency Debt (≥3 - <5 years to maturity)	N/A	N/A	105%
Treasuries & Agency Debt (≥5 - <7 years to maturity)	N/A	N/A	106%
Treasuries & Agency Debt (≥7 - <10 years to maturity)	N/A	N/A	107%
Treasuries (≥10 years to maturity)	N/A	N/A	110%
Agency Debt (≥10 years to maturity)	N/A	N/A	112%
Treasuries & Agency Debt Principal Strip Securities			
<3 years to maturity	N/A	N/A	104%
≥3 - <5 years to maturity	N/A	N/A	105%
≥5 - <7 years to maturity	N/A	N/A	107%
≥7 - <10 years to maturity	N/A	N/A	115%
≥10 years to maturity	N/A	N/A	125%
Other Govt/Agency	N/A	N/A	107%
SBA Securities	N/A	N/A	107%
GNMA HMBS	N/A	N/A	107%
Agency MBS	N/A	N/A	105%
Agency CMOs Principal Only (POs)	N/A	N/A	113%
Agency CMO Z Tranches	N/A	N/A	110%
Agency CMBS Interest Only (IOs)	N/A	N/A	140%
Category 3			
Private MBS			
AAA rated	N/A	N/A	112%
AA rated	N/A	N/A	120%
A rated	N/A	N/A	130%
BBB rated	N/A	N/A	180%
Mutual Funds	145%	125%	125%
Category 4			
FHLBI Deposits and CDs	N/A	N/A	100% of face amt.
Category 5			
Multifamily Mortgage Loans	155%	140%	140%
Category 6			
Other Real Estate Related Collateral			
Home Equity Term Loans (closed-end)	360%	165%	165%
Home Equity Lines of Credit (HELOCs)	360%	165%	165%
Commercial Real Estate Loans	165%	155%	155%
Home Equity and Commercial Mortgage Backed			
AAA rated	N/A	N/A	115%
AA rated	N/A	N/A	125%
A rated	N/A	N/A	135%
BBB rated	N/A	N/A	190%
Municipal Securities			
AAA rated	N/A	N/A	110%
AA rated	N/A	N/A	115%
A rated	N/A	N/A	120%
Category 7			
CFI Eligible Collateral			
Small Business Loans	200%	200%	200%
Farm Real Estate Loans	175%	175%	175%

² Based on FHLBI Credit Policy as of September 2022. The current Credit Policy and Collateral Procedures & Selection Criteria should be referred to for additional eligibility requirements.

For insurers, the primary benefit of FHLBank Indianapolis membership is ready access to low-cost funds. Members can quickly access a variety of funding options. Since insurers tend to be rich in eligible collateral (Treasuries, Agencies, MBS, CMOs, and mortgage loans), FHLBank Indianapolis borrowing capacity can be a powerful tool for managing liquidity, risk and profitability.

Specific membership benefits include:

- reducing cash and short-term liquidity balances
- remaining fully invested and picking up additional investment income
- reducing dependence and cost of existing liquidity
- options by gaining access to highly reliable FHLBank Indianapolis funding
- confidently managing unexpected cash flow dislocations and catastrophic liquidity events, such as 9/11 and Hurricane Katrina
- prudently investing in higher yielding, less liquid assets
- engaging in matched leverage trades to enhance investment income and utilizing excess capacity

FHLBank Indianapolis access to capital markets allows for a great deal of customization. Terms typically range from overnight to 10 years (20 years for Community Investment Program advances) and can be either fixed or floating rate. Structures that amortize or contain embedded options are also available. Finally, FHLBank Indianapolis funding can be classified as borrowings or, in some cases, as deposits structured as funding agreements.

For additional information on the FHLBank Indianapolis funding, contact FHLBank Indianapolis Advances Desk at 800.442.2568 or creditdesk@fhlbi.com.

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