

# LIFE INSURERS ARE DIFFERENT BY DESIGN

For more than 175 years, life insurers have helped American families build financial security. While both insurers and banks are part of the financial system, the business models – and liquidity risk profiles – are fundamentally different.

LIFE INSURERS	BANKS
<p><b>Asset-Liability Matching</b> Align long-term assets with long-duration policyholder commitments and support short-term liabilities with liquid assets – providing stability and resilience during periods of stress.</p>	<p><b>Maturity Mismatch</b> Often fund long-term loans with short-term deposits, leaving them exposed during stress.</p>
<p><b>Full Reserves</b> Must hold reserves for every liability, ensuring obligations are fully backed by assets. Insurers must submit proof of reserve adequacy to regulators who can require insurers to post additional reserves if needed.</p>	<p><b>Fractional Reserves</b> Not required to hold full reserves for demand accounts; only a fraction of deposits is kept on hand.</p>
<p><b>Built-In Safeguards</b> Insurance products are relatively illiquid making “bank runs” less likely. Surrender charges, tax consequences and regulatory circuit breakers also deter mass withdrawals.</p>	<p><b>Vulnerability to Runs</b> Deposit withdrawals can spread quickly, leading to destabilizing “runs on the bank.”</p>

### **Robust Oversight**

State-based regulation requires insurers to maintain adequate capital and surplus, conduct liquidity stress testing and cash flow adequacy reviews, and hold reserves for each policy, supported by continuous supervision.

### **Regulation Focused Primarily on Capital Adequacy**

Banking regulators focus primarily on capital standards and deposit insurance to protect consumers. Banks can also access the Federal Reserve's "discount window," which is a lender of last resort and liquidity backstop for the industry.

## **THE BOTTOM LINE**

Life insurers are in the business of making long-term promises, which allows us to avoid reliance on short-term liquidity and reduces exposure to short-term market volatility. Banks, by contrast, are designed to provide short-term liquidity and are more vulnerable to sudden withdrawals.

Overall, the life insurance industry's reserves, product features and regulations make us far less vulnerable to liquidity shocks than banks. Plus, policyholders rarely withdraw funds early since most hold life insurer products like annuities for retirement.

In fact, our track record proves this resilience: in 2021, at the height of COVID, the industry paid out nearly **\$200 billion** in life insurance and annuity benefits without experiencing liquidity shortfalls. We are among the most stable financial institutions in the United States.