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MetLife®

June 19, 2009

The Honorable Mike Crapo
United States Senate
239 Dirksen Senate Office Building
Washington, DC 20510

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Dear Senator Crapo:

We appreciate your office taking the time to meet with MetLife to discuss the regulatory reform of financial derivatives. We are in receipt of your letter dated June 16, 2009 to our Chief Investment Officer, Steve Kandarian, and thank you for allowing us this opportunity to provide our input on this important legislative initiative.

MetLife, the largest life insurer in the United States, offers life insurance, annuities, auto and home insurance, retail banking and other financial services to individuals, as well as group insurance and retirement and savings products and services to corporations and other institutions. Through our various subsidiaries and affiliates, MetLife reaches over 70 Million customers worldwide. As of March 31, 2009, MetLife had a total investment portfolio of $316 Billion.

The U.S. life insurance industry benefits greatly from a broad and well functioning market for financial derivatives. As an "end user", MetLife employs derivatives safely and appropriately to protect our assets and hedge the risks inherent in customer liabilities. Derivatives that can be structured to hedge very specific risks, known as "customized" derivatives, are an essential risk management tool. A broad and efficient marketplace that provides continued access to a wide range of financial derivatives is vital so that MetLife and other insurers can meet our commitments to millions of hardworking Americans.

1. How does your company use customized over the counter derivatives to help stabilize prices and mitigate risk?

MetLife utilizes a diversified group of financial derivatives, from standardized derivatives, like exchange traded futures, to customized derivatives, like structured swap and currency transactions. We utilize these products safely and appropriately to manage the risks associated with many of our insurance products and to protect the value of our investment portfolio. Although standardized derivatives are a core hedging tool, they do not offer the flexibility and cost efficiency needed to properly hedge the full range of insurance assets and liabilities that insurers must manage. Customized derivatives account for a large portion of our over the counter derivatives usage and are utilized to provide a closer offset to the market risks of insurance products that are tailored to fit customer needs and to precisely hedge risks in assets held to match insurance liabilities. For example:

- Many insurance products such as long term care insurance, traditional life insurance and fixed annuity portfolios are of very long duration, characterized by payments out to customers that can range from 15, 25 and even 50 years. The payout period on these policies is much longer than the duration of the derivatives in the exchange traded futures markets. Customized over-the-counter derivatives are utilized to better match the cash flow timing and maturities of the policy holder obligations.

- In connection with certain variable annuity contracts that contain equity guarantees, a policy holder can be guaranteed the ability to withdraw funds at a guaranteed minimum market value, regardless of stock market performance and interest rate movement, over the life of the annuity. These guarantees tied to market performance are prudently hedged with a combination of customized swaps and options.

- In order to diversify the risks of investment portfolios, insurers at times purchase fixed income securities issued by non-U.S. companies. An investment that is attractive from a credit perspective could be denominated in a foreign currency. If the policies supported by these investments are dollar denominated liabilities, these foreign currency investments will be "swapped" to dollars to reduce exposure to fluctuations in currency values. Customized currency swaps are utilized to exactly match the rates, payment periods and maturity of the foreign currency assets to convert the foreign currency amounts into US dollars.

2. What are the possible effects of severely restricting access to customize over the counter derivatives on your ability to manage risk and on the prices you charge your customers?

As indicated above, customized derivatives are an important risk management tool for insurers. A derivatives market that prohibits or severely restricts access to customized over the counter derivatives would create new risks and challenges to delivering on the protections and guarantees our products provide to millions of customers. It would also significantly limit our ability to innovate and provide new insurance and retirement solutions for the financial security of Americans in these difficult times.

Restrictions or prohibitions on the use of customized over the counter derivatives would create an inefficient financial marketplace. Standardized derivatives cannot be used effectively to hedge all types of financial risks. In some cases it is simply more expensive to hedge certain risks with standardized derivatives than with customized derivatives. For example, experience has shown that it is more cost effective to hedge "duration risk" (the risk that policies have a term that extends beyond the maturity dates of easily obtainable assets) with a single customized derivative than through a series of consecutively renewable standard derivatives. In other instances, as exemplified in our response to question 1, the breadth of hedging solutions provided by standardized derivatives are too narrow to mitigate the many risk combinations arising from variable and guaranteed insurance products. Attempting to utilize standardized derivatives to hedge certain liabilities would not adequately protect insurance companies from these risks, and would in fact introduce additional risks.

Any increased risks would result in higher costs to offer and maintain these products. In either situation, the increased costs of an inefficient derivatives market would be reflected in the pricing to our customers. To the extent the costs and / or risks associated with an inability to appropriately hedge these products became prohibitive; these products could be no longer available for customers.

3. What safeguards are in place to ensure that you derivatives portfolio is a tool for hedging risk, rather than a source of risk for your company?

MetLife safeguards its derivatives portfolio and ensures that it is risk reductive by strictly complying with all regulatory requirements imposed under applicable state insurance laws and adhering to prudent investment and risk management strategies.

Each insurer is subject to regulation by the insurance department and insurance laws in its state of domicile. Under this regulatory regime, MetLife's use of derivatives receives broad and comprehensive oversight.

State insurance statutes proscribe the use of derivatives to hedging investment assets and liabilities. In order to execute a derivatives transaction, it must be demonstrated the derivatives to be purchased reduce identified risks associated with specific assets or liabilities, and this risk reduction essentially must stay in place for the entire time the derivatives transaction remains outstanding.

State insurance statutes also impose quantitative limits on derivatives. The dollar value of derivatives transactions outstanding are usually capped at a very low percentage of an insurer's admitted assets. With respect to over the counter derivatives, state statutes establish the financial strength requirements and aggregate concentration limits for derivatives trading counterparties.

Prior to engaging in any derivative transactions, state insurance law requires the Board of Directors (or Investment Committee of the Board) to adopt a Derivatives Use Plan, setting forth permitted derivatives objectives and strategies, quantitative limitations on transactions, requirements with respect to counterparty exposures, periodic reporting to Board and management, and other management and control procedures. In many states, this plan is also subject to the review and approval of the state insurance department. Derivatives programs are typically subject to a mandated annual compliance audit by an insurer's independent auditors and to periodic review and audit by the state insurance regulators.

All over the counter derivatives transactions executed between insurers and their trading counterparties are governed by an industry master agreement that includes provisions for the daily monitoring and posting of collateral. This master agreement reduces the risk of loss between an insurer and its trading counterparties by aggregating or "netting" the amounts due under all derivatives transactions with a particular counterparty into one payment amount. This netting valuation occurs on a daily basis and collateral is exchanged between the insurer and its trading counterparties based upon each day's net payment amount.

In addition to periodic examinations by state insurance regulators, internal checks and balances within an insurer's corporate governance structure are critical to ensuring that derivatives are used appropriately and in compliance with state insurance law. We have established separate units within each of our legal, accounting, audit and enterprise risk management departments dedicated exclusively to the daily oversight of derivatives transactions and our derivatives portfolio.

We hope that this information has been helpful. If we can be any further assistance please contact Kristin Smith of our Washington office at 202-466-6224 or via email ksmith4@metlife.com.

Sincerely,

John Rosenthal

John Rosenthal
Senior Managing Director
Chief Hedging Officer