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Michael White/Meyer-Chatfield Report 2Q BOLI Assets Up and Trending Toward Hybrid Accounts

FOR IMMEDIATE RELEASE – Radnor, PA, and Jenkintown, PA, October 24, 2011 – Separate account life insurance (SALI) assets constituted the majority (\$62.94 billion or 51.4%) of total bank-owned life insurance (BOLI) assets in the first half of 2011, according to *The Michael White/Meyer-Chatfield BOLI Holdings Report*[™]. Among the biggest banks, those over \$10 billion in assets, SALI assets of \$58.23 billion constituted even more of their BOLI assets of \$98.61 billion, reaching nearly \$3 of every \$5 (59.1%) of total BOLI assets.

BOLI is used to recover costs of employee benefits and offset the liabilities of retirement benefits, helping banks to keep up with the rising benefit costs. Information about separate account life insurance (SALI) assets, general account life insurance (GALI) assets and hybrid account life insurance (HALI) assets held by commercial banks and FDIC-supervised savings banks became available for the first time at the end of first half 2011. Savings associations, i.e., thrifts, consolidate these types of BOLI assets when reporting.

Compiled by Michael White Associates, LLC (MWA) and sponsored by Meyer-Chatfield, *The Michael White/Meyer-Chatfield BOLI Holdings Report*[™] measures and benchmarks the cash surrender values of life insurance and ratios of CSV to capital possessed by banks and bank holding companies (BHCs). The data here were reported by 6,805 commercial banks and FDIC-supervised savings banks operating on June 30, 2011. Among the study's most significant findings in the first half are these:

- Of 6,850 commercial and FDIC-supervised savings banks, 3,405 or 50.0% reported holding BOLI assets of \$122.56 billion in first half 2011, an increase of 4.9% from \$116.83 billion in first half 2010.
- Of special note were changes from first to second quarter in the use of different types of BOLI assets. The number of banks using hybrid accounts increased 7.2% from 713 in first quarter to 764 banks in second quarter. Banks employing separate account or SALI assets decreased by 26 (4.5%).
- Separate account CSV assets totaled \$62.94 billion among banks, representing 51.4% of all BOLI assets. At the same time, only 556 or 16.3% of all banks reporting BOLI held separate account assets. Thus, the fewest number of banks with BOLI held SALI assets, which were the largest portion of BOLI assets. Separate account life insurance assets are the cash surrender values (CSVs) associated with separate account insurance policies whose CSVs are supported by assets segregated from the general assets of the insurance carrier. Under such arrangements, the policyholders neither own the underlying separate account created by the insurance carrier on its behalf, nor control investment decisions in the underlying account; but they do assume all investment and price risk so that investment income and investment gains and losses generally accrue directly to the policyholders and are not accounted for in the general account of the insurer.
- The largest banks, i.e., those with assets greater than \$10 billion, reported the most in BOLI assets, as 62 of 88 large banks or 70.5% reported having \$98.61 billion in BOLI assets or 80.5% of the industry's total of \$122.56 billion. These large banks held \$58.23 billion or 92.5% of the \$62.94 billion in SALI assets held by all banks in first half 2011. The SALI assets held by these large banks alone constituted 47.5% of the industry's total BOLI assets of \$122.56 billion.

- In other words, the largest banks dominated the ownership of both total BOLI assets and separate account life insurance assets in first half 2011. Yet, the least commonly held BOLI policies were SALI policies, as the fewest banks (556) with BOLI assets in first half held SALI assets.
- Ninety-three percent (93.2%) or 3,174 of the 3,405 institutions reporting BOLI assets had \$50.13 billion in general account life insurance assets, representing 40.9% of total BOLI assets at the end of first half. Thus, the most commonly held policies were GALI policies. In GALI policies, the general assets of the insurance company issuing the policies support their CSV. This reporting category also includes the portion of the carrying value of separate account policies that represents general account claims on the insurance company, such as realizable deferred acquisition costs and mortality reserves.
- Seven hundred thirteen (764) or 22.4% of the 3,405 institutions reporting BOLI assets held \$9.49 billion in hybrid account life insurance assets, representing 7.7% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. Hybrid account insurance policies combine features of both general and separate account insurance products. Similar to general account life insurance policies, the general assets of the insurance company issuing hybrid account policies support the policies' cash surrender values. However, like separate account policies, the assets of hybrid accounts are protected from claims on the insurer. Additionally, the banks holding hybrid account life insurance policies are able to select the investment strategies in which the insurance premiums are invested.
- Separate account life insurance assets were heavily concentrated (92.5%) among the largest banks. But, GALI and HALI types of BOLI assets were much less concentrated among the big banks. Smaller banks held 33.0% of general account life insurance assets and 28.5% of hybrid account life insurance assets in first half 2011.
- Most banks are subsidiaries of bank holding companies and account for most BOLI assets. But approximately 20.2% of banks are stand-alone, i.e., not part of BHCs. Of those banks, 442 or 32.1% recorded \$3.23 billion in first half BOLI holdings. Of that amount, \$2.51 billion or 77.6% resided in general account life insurance (GALI) policies, and only 13.9% of stand-alone banks' BOLI assets were in separate account life insurance (SALI) policies.
- Of 1,349 national banks, 656 or 48.6% held two-thirds (\$81.83 billion) of total BOLI assets; those 656 banks represented 9.6% of all banks operating at the end of first half 2011. Only 116 of those national banks reported separate account life insurance assets, but they possessed \$52.48 billion or 83.4% of the industry's total SALI assets of \$62.94 billion, making national banks of all banking charters the leading owner of SALI. Indeed, SALI assets represented 64.1% of national bank's total BOLI assets of \$81.83 billion.

**Table 1. Total BOLI Assets (in billions)
 Held by Banks in First Half 2011**

Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$33.60	\$58.23	\$ 6.78	\$98.61
\$1 billion - \$10 billion	\$ 7.43	\$ 3.72	\$ 1.29	\$12.44
\$500 million - \$1 billion	\$ 3.22	\$ 0.47	\$ 0.58	\$ 4.27
\$300 million - \$500 million	\$ 2.15	\$ 0.19	\$ 0.35	\$ 2.69
\$100 million - \$300 million	\$ 3.03	\$ 0.28	\$ 0.43	\$ 3.73
Under \$100 million	\$ 0.71	\$ 0.05	\$ 0.05	\$ 0.81
All	\$50.13	\$62.94	\$ 9.49	\$122.56

Source: Michael White/Meyer-Chatfield BOLI Holdings Report

Table 2. Number of Banks Reporting BOLI Assets in First Half 2011				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	59	47	28	62 (of 88)
\$1 billion - \$10 billion	343	146	123	365 (of 480)
\$500 million - \$1 billion	410	84	149	436 (of 610)
\$300 million - \$500 million	432	59	130	456 (of 725)
\$100 million - \$300 million	1,210	151	268	1,308 (of 2,561)
Under \$100 million	720	69	66	778 (of 2,341)
All	3,174	556	764	3,405 (of 6,805)

Source: *Michael White/Meyer-Chatfield BOLI Holdings Report*™

- According to federal banking regulators, it is generally not prudent for a bank to hold BOLI assets with an aggregate cash surrender value (CSV) that exceeds 25 percent of the sum of the institution's total capital. (Depending on the bank's charter, total capital is defined either as Tier 1 capital or the sum of Tier 1 capital and the allowance for loan and lease losses). Nationally, mean bank BOLI assets as a percent of the sum of Tier 1 capital and the loss allowances increased very slightly from 14.55% in first half 2010 to 14.75% in first half 2011.

About the *Michael White/Meyer-Chatfield BOLI Holdings Report*™

Meyer Chatfield, Corp. has become the BOLI resource for America's banks because of our history of providing consultation, education and service to our clients. Our primary mission is assisting financial institutions in crafting and deploying valuable, tax advantaged, BOLI strategies. Meyer-Chatfield has initiated, managed and serviced billions of dollars in BOLI transactions for hundreds of banks nationwide. The company is committed to compliance; its principals have been advisors to the regulators since 1994 and worked with the OCC on the inter-agency guidance for BOLI, OCC 2004-56. Meyer-Chatfield's headquarters are in Jenkintown, PA with expert consultants in offices nationally. For the most extensive set of unified BOLI information online, go to www.meyerchatfield.com.

The *Michael White/Meyer-Chatfield BOLI Holdings Report*™ measures and benchmarks the cash surrender values (CSV) of life insurance held by bank holding companies and banks and their ratios of CSV to capital. It is one of several reports dealing with bank fee income activities published by Michael White Associates, LLC (MWA), a bank insurance consulting firm headquartered in Radnor, PA, and at www.BankInsurance.com. Another report, the *MWA BOLI Capital Concentration Report*™, meets the regulatory requirement that each banking company must conduct a peer analysis of their BOLI holdings relative to capital and statistically assess whether its BOLI program is an outlier. Additionally, *MWA Fee Income Ratings Reports*™ compare, rank and rate a particular financial institution's insurance or other noninterest fee income program nationally, regionally, statewide and by asset-peer group.

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