

N E W S R E L E A S E

Michael White/Meyer-Chatfield Report BOLI Assets Reached \$143.7 Billion in 2011

FOR IMMEDIATE RELEASE – Radnor, PA, and Jenkintown, PA, May 8, 2012 – Bank-owned life insurance (BOLI) assets reached \$143.67 billion in 2011, reflecting a 2.8% increase from \$139.78 billion in 2010. BOLI assets held by large bank holding companies (BHCs), stand-alone banks and savings associations, according to the 2012 edition of the *Michael White/Meyer-Chatfield Bank-Owned Life Insurance (BOLI) Holdings Report*[™].

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. BOLI may be differentiated by three types of assets: separate account life insurance or SALI assets, general account life insurance (GALI) assets and hybrid account life insurance (HALI) assets. Commercial banks and FDIC-supervised savings banks began reporting these types of assets in 2011. Savings associations will begin reporting them in 2012.

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 (CSV) of life insurance and ratios of CSV to capital attained by BHCs, banks and thrifts. The data in this report were submitted to regulators by 929 large top-tier BHCs with assets greater than \$500 million and all 7,357 commercial banks, savings banks, and savings associations operating on December 31, 2011. Among the study's most significant findings are these:

By Types of Institutions:

- Of 929 large top-tier BHCs, 765 or 82.4% reported holding BOLI assets in 2011, increasing their BOLI holdings by 3.0% from \$129.4 billion in 2010 to \$133.3 billion in 2011.
- Of 1,338 stand-alone banks, i.e., those without parent-BHCs, 452 or 33.8% recorded \$3.46 billion in BOLI holdings, up 13.3% from \$3.05 billion in 2010.
- Of 678 savings association, 302 or 44.5% recorded \$6.92 billion in BOLI holdings, down 7.9% from \$7.28 billion in 2010.
- Of 7,357 banks and savings associations, 3,725 or 50.6% reported BOLI assets of \$131.95 billion, an increase of 3.5% from \$127.44 billion in 2010. (See Tables 1 and 2.)

By Types of BOLI Assets:

- The largest amount of BOLI assets were to be found in separate accounts. Separate account CSV assets totaled \$65.43 billion among banks, representing 52.3% of all BOLI assets. (See Table 3.) At the same time, only 541 or 15.8% of all banks reporting BOLI held separate account assets. (See Table 4.) Thus, among all banks holding BOLI assets, SALI assets, the largest portion of BOLI assets, were held by the fewest number of banks. 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. They do assume all investment and price risk so the 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 BOLI assets most widely held by banks in 2011 were GALI policies. (See Table 4.) Ninety-three percent (93.4%) or 3,196 of the 3,423 banks reporting BOLI assets had \$49.27 billion in general account life insurance assets, representing 39.4% of total BOLI assets in 2011. (See Tables 3 and 4.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- 862 or 25.2% of the 3,423 institutions reporting BOLI assets held \$10.32 billion in hybrid account life insurance assets, representing 8.3% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. (See Tables 3 and 4.) 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 (SALI) assets were most heavily concentrated (92.9%) among the largest banks with assets greater than \$10 billion. But, while also concentrated among the big banks, GALI and HALI types of BOLI assets were less so. Smaller banks held 34.7% of general account life insurance assets and 30.0% of hybrid account life insurance assets in 2011, as opposed to the much lower 7.1% of SALI assets. (See Table 3.)
- The fastest growing type of BOLI assets in 2011, in terms of the increase in the number of banks employing them, were hybrid assets. From first to fourth quarter, the number of banks using hybrid accounts increased 20.9% from 713 in first quarter to 862 banks in second quarter. Banks employing separate account or SALI assets decreased by 7.0% from 582 to 541.

By Size of Institutions:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 415 of 550 banks and thrifts or 75.5% reported having them in 2011. Among BHCs, those with assets greater than \$10 billion, reported the highest incidence of BOLI ownership, as 62 of 72 BHCs, or 86.1%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.23 billion) in BOLI. Institutions with assets between \$100 million and \$300 million attained the largest percentage increase (6.9%) in BOLI assets. (See Table 1.) Among BHCs, it was the largest that accounted for the biggest dollar increase (\$2.88 billion), but BHCs with assets between \$500 million and \$1 billion attained the greatest percentage increase (9.8%) in their combined BOLI assets.
- Four of six asset classes experienced a decrease in 2011 in the number of banks and thrifts reporting BOLI assets. The largest numerical and percentage decreases, 39 banks and thrifts or 4.6%, respectively, occurred among depository institutions under \$100 million in assets. (See Table 2.) Declines in banks and thrifts reporting BOLI assets generally did not reflect decisions to leave the BOLI market. The declines were primarily due to some banks and thrifts merging or being sold with FDIC assistance.
- According to federal banking regulators, it is generally not prudent for a banking company 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 an institution'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 (2.5%) from

14.93% in 2010 to 15.31% in 2011. Nationally, mean BHC BOLI assets as a percent of total capital decreased from 13.64% in 2010 to 13.13% in 2011.

Table 1. Total BOLI Assets (in billions) Held by Banks and Thrifts			
Banks & Thrifts by Asset Size	2011	2010	Percent Change
Over \$10 billion	\$104.01 billion	\$100.78 billion	3.3%
\$1 billion - \$10 billion	\$ 14.57 billion	\$ 13.90 billion	4.8%
\$500 million - \$1 billion	\$ 4.95 billion	\$ 4.75 billion	4.2%
\$300 million - \$500 million	\$ 3.16 billion	\$ 3.09 billion	2.1%
\$100 million - \$300 million	\$ 4.29 billion	\$ 4.01 billion	6.9%
Under \$100 million	\$ 891.6 million	\$ 901.5 million	-1.1%
All	\$131.95 billion	\$127.44 billion	3.5%

Source: *Michael White/Meyer-Chatfield Bank-Owned Life Insurance (BOLI) Holdings Report™ – 2012 edition*

Table 2. Number of Banks and Thrifts Reporting BOLI Assets			
Banks & Thrifts by Asset Size	2011	2010	Percent Change
Over \$10 billion	69	71	-2.8%
\$1 billion - \$10 billion	415	413	0.5%
\$500 million - \$1 billion	476	479	-0.6%
\$300 million - \$500 million	517	520	-0.6%
\$100 million - \$300 million	1,444	1,442	0.1%
Under \$100 million	804	843	-4.6%
All	3,725	3,768	-1.1%

Source: *Michael White/Meyer-Chatfield BOLI Holdings Report™ – 2012 edition*

Table 3. Total BOLI Assets (in billions) Held by Banks in 2011				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$32.17	\$60.77	\$ 7.23	\$100.17
\$1 billion - \$10 billion	\$ 7.68	\$ 3.76	\$ 1.45	\$12.89
\$500 million - \$1 billion	\$ 3.34	\$ 0.45	\$ 0.70	\$ 4.49
\$300 million - \$500 million	\$ 2.24	\$ 0.16	\$ 0.36	\$ 2.76
\$100 million - \$300 million	\$ 3.15	\$ 0.24	\$ 0.53	\$ 3.93
Under \$100 million	\$ 0.69	\$ 0.05	\$ 0.06	\$ 0.81
All	\$49.27	\$65.43	\$10.32	\$125.03

Note: Savings associations (SAs) are not required to begin reporting until first quarter 2012. Hence, the totals in this table are for banks only and do not equal the industry-wide total for all BOLI holdings.

Source: *Michael White/Meyer-Chatfield BOLI Holdings Report™ – 2012 edition*

Table 4. Number of Banks Reporting BOLI Assets in 2011				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	58	48	30	61 (of 88)
\$1 billion - \$10 billion	347	151	131	369 (of 476)
\$500 million - \$1 billion	416	82	173	443 (of 622)
\$300 million - \$500 million	441	53	130	463 (of 729)
\$100 million - \$300 million	1,236	144	318	1,334 (of 2,546)
Under \$100 million	698	63	80	753 (of 2,218)
All	3,196	541	862	3,423 (of 6,679)

Note: Savings associations (SAs) are not required to begin reporting until first quarter 2012. Hence, the totals in this table are for banks only and do not equal the industry-wide total for all BOLI holdings.

Source: *Michael White/Meyer-Chatfield BOLI Holdings Report™ – 2012 edition*

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

The *Michael White/Meyer-Chatfield BOLI Holdings Report™* measures and benchmarks the cash surrender values (CSV) of life insurance held by bank holding companies, banks and savings associations 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.

During the last 20 years, Meyer-Chatfield has grown from a highly respected BOLI specialist to a comprehensive solutions company. The firm works with C-level executives in the banking industry and their Boards to create unique earning opportunities, design compensation programs and develop turnkey administrative solutions that work. 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.

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