

N E W S R E L E A S E

Michael White/Meyer-Chatfield Report BOLI Assets Reached \$145.6 Billion in 1Q 2012

FOR IMMEDIATE RELEASE – Radnor, PA, and Jenkintown, PA, August 13, 2012 – Bank-owned life insurance (BOLI) assets reached \$145.6 billion in first quarter 2012, reflecting an 8.7% increase from \$133.9 billion in first quarter 2011 BOLI assets held by large bank and savings and loan (or thrift) holding companies (BHCs and THC, collectively, holding companies or HCs) and stand-alone banks, according to 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, and THCs and savings associations began reporting them during this first quarter of 2012.

Compiled by Michael White Associates (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, THCs, commercial banks and savings associations (or thrifts). The data in this report were submitted to regulators by 1,074 large top-tier holding companies with assets greater than \$500 million and all 7,307 commercial banks, savings banks, and savings associations operating on March 31, 2012. Several THCs that are historically and traditionally insurance underwriting operations have been excluded from the report. Among the study's most significant findings are these:

By Types of Institutions:

- Of 1,074 bank and thrift holding companies, 880 or 81.9% reported holding BOLI assets in first quarter 2012, increasing their BOLI holdings by 8.6% from \$130.84 billion in first quarter 2011 to \$142.10 billion in first quarter 2012. Approximately one-third of the increase (\$3.78 billion) in BOLI assets was due to the new reporting of thrift holding companies. The Federal Reserve is allowing, through 2013, a two-year phase-in of new reporting requirements by a limited number of thrift holding companies, also known as savings and loan holding companies.
- Of 1,319 stand-alone banks, i.e., those banks without parent-BHCs, 455 or 34.5% recorded \$3.51 billion in BOLI holdings in first quarter 2012, up 13.2% from \$3.10 billion in first quarter 2011.
- Of 7,307 banks and savings associations (which, henceforth, we will refer to collectively as “banks”), 3,754 or 51.4% reported BOLI assets of \$133.68 billion in first quarter 2012, an increase of 3.7% from \$128.85 billion in first quarter 2011. (See Tables 1 and 2.)

By Types of BOLI Assets:

- Among banks, the largest amount of BOLI assets was to be found in separate accounts. Separate account CSV assets totaled \$68.14 billion among banks, representing 51.0% of all BOLI assets in first quarter 2012. (See Table 3.) At the same time, only 604 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 first quarter 2012 were GALI policies. (See Table 4.) Ninety-three percent (92.8%) or 3,482 of the 3,754 banks reporting BOLI assets had \$53.05 billion in general account life insurance assets, representing 39.7% of total BOLI assets. (See Tables 3 and 4.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- 979 or 26.1% of the 3,754 institutions reporting BOLI assets held \$12.49 billion in hybrid account life insurance assets in first quarter 2012, representing 9.3% 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 (92.5%) among the largest banks with assets greater than \$10 billion. But, while also concentrated among the big banks, GALI and HALI assets were less so. Smaller banks held 36.7% of general account life insurance assets and 29.8% of hybrid account life insurance assets in first quarter 2012, as opposed to the much lower 7.5% of SALI assets. (See Table 3.)
- The fastest growing type of BOLI assets in first 2012, in terms of the increase in the number of banks employing them, were hybrid assets. From first quarter 2011, the number of banks using hybrid accounts increased 37.3% from 713 in first quarter 2011 to 979 banks in first quarter 2012. Banks employing separate account or SALI assets increased slightly by 3.8% to 604 in first quarter 2012, up from 582 in first quarter 2011. The number of banks reporting the three types of BOLI assets increased rather dramatically because thrifts only began reporting them in first quarter 2012.

By Size of Institutions:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 422 of 557 banks and thrifts or 75.8% reported having them in first quarter 2012. The same-sized holding companies reported the highest incidence of BOLI ownership, as 396 of 468 BHCs or 84.6% declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.35 billion) in BOLI. Institutions with assets between \$300 million and \$500 million attained the largest percentage increase (9.6%) in BOLI assets. (See Table 1.) Among holding companies, it was the largest that accounted for the biggest dollar increase (\$8.08 billion) year-over-year, but holding companies with assets between \$1 billion and \$10 billion attained the greatest percentage increase (22.6%) in their combined BOLI assets in first quarter, as thrift holding companies began reporting BOLI for the first time.
- Four of six asset classes experienced increases in first quarter 2012 in the number of banks and thrifts reporting BOLI assets. The largest numerical and percentage increases, 33 banks and thrifts or 6.5%, respectively, occurred among depository institutions between \$300 million and \$500 million in assets. (See Table 2.) .

- 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, median bank BOLI assets as a percent of the sum of Tier 1 capital and the loss allowances increased (0.6%) from 14.91% in first quarter 2011 to 15.00% in first quarter 2012. Nationally, median BHC BOLI assets as a percent of total capital increased (9.6%) from 13.47% in first quarter 2011 to 14.76% in 2012.

Table 1. Total BOLI Assets (in billions) Held by Banks and Thrifts			
Asset Size	1Q 2012	1Q 2011	Percent Change
Over \$10 billion	\$105.04 billion	\$102.04 billion	3.3%
\$1 billion - \$10 billion	\$ 14.67 billion	\$ 13.94 billion	5.3%
\$500 million - \$1 billion	\$ 5.11 billion	\$ 4.85 billion	5.3%
\$300 million - \$500 million	\$ 3.34 billion	\$ 3.04 billion	9.6%
\$100 million - \$300 million	\$ 4.29 billion	\$ 4.09 billion	5.1%
Under \$100 million	\$ 876.7 million	\$ 894.0 million	-1.9%
All	\$133.68 billion	\$128.85 billion	3.7%

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

Table 2. Number of Banks and Thrifts Reporting BOLI Assets			
Asset Size	1Q 2012	1Q 2011	Percent Change
Over \$10 billion	71	72	-1.4%
\$1 billion - \$10 billion	422	418	1.0%
\$500 million - \$1 billion	485	482	0.6%
\$300 million - \$500 million	542	509	6.5%
\$100 million - \$300 million	1,438	1,435	0.2%
Under \$100 million	796	829	-4.0%
All	3,754	3,745	0.2%

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

Table 3. Total BOLI Assets (in billions) Held by Banks and Thrifts in First Quarter 2012				
Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$33.59	\$63.04	\$ 8.77	\$105.40
\$1 billion - \$10 billion	\$ 8.84	\$ 4.05	\$ 1.79	\$14.67
\$500 million - \$1 billion	\$ 3.81	\$ 0.49	\$ 0.81	\$ 5.11
\$300 million - \$500 million	\$ 2.66	\$ 0.22	\$ 0.45	\$ 3.34
\$100 million - \$300 million	\$ 3.42	\$ 0.27	\$ 0.59	\$ 4.29
Under \$100 million	\$ 0.74	\$ 0.07	\$ 0.07	\$ 0.88
All	\$53.05	\$68.14	\$12.49	\$133.68

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

Table 4. Number of Banks and Thrifts Reporting BOLI Assets in 2012				
Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	65	56	33	71 (of 107)
\$1 billion - \$10 billion	392	165	157	422 (of 557)
\$500 million - \$1 billion	459	88	190	485 (of 693)
\$300 million - \$500 million	514	62	155	542 (of 825)
\$100 million - \$300 million	1,322	160	353	1,438 (of 2,758)
Under \$100 million	730	73	91	796 (of 2,367)
All	3,482	604	979	3,754 (of 7,307)

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

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

The *Michael White/Meyer-Chatfield BOLI Holdings Report*TM 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*TM, 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*TM 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.

For additional information contact:

Michael D. White, Ph.D., CLU, ChFC
 President
 Michael White Associates, LLC
 823 King of Prussia Road
 Radnor, PA 19087
 Phone: (610) 254-0440
 Email: MWA@BankInsurance.com

Chris Pezalla, FSA, MAAA
 Senior Vice President
 Meyer-Chatfield, Corp.
 261 Old York Rd., Suite 604
 Jenkintown, PA 19046
 Phone: (215) 935-1125
 Email: c.pezalla@meyerchatfield.com