

N E W S R E L E A S E

Equias Alliance/Michael White Report BOLI Assets Nearly Reached \$147 Billion in 1H 2014

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, September 23, 2014 – Bank-owned life insurance (BOLI) assets reached over \$146.6 billion in first half 2014, reflecting a 4.5% increase from \$140.4 billion in first half 2013 BOLI assets held by commercial banks, savings banks and savings associations, according to the *Equias Alliance/Michael White Bank-Owned Life Insurance (BOLI) Holdings Report™*.

BOLI is used to recover costs of employee benefits and offset liabilities for retirement benefits, helping banks to keep up with ever-rising benefit costs. BOLI may be differentiated by three types of assets: separate account life insurance (SALI) assets, also referred to as variable separate account life insurance assets; general account life insurance (GALI) assets; and hybrid account life insurance (HALI) assets, also referred to as hybrid separate account life insurance assets.

Co-produced by Equias Alliance and Michael White Associates, LLC (MWA), the *Equias Alliance/Michael White BOLI Holdings Report™* measures and benchmarks the cash surrender values (CSV) of life insurance and ratios of CSV to capital attained by commercial banks, savings banks, and savings associations (the “banks”)¹. The data in this report were submitted to regulators by all 6,656 banks operating on June 30, 2014. It is important to note that in the 12 month period between June 30, 2013 and June 30, 2014, the number of banks submitting data to the FDIC shrank from 6,940 to 6,656 - a decline of 284 banks. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,656 banks and savings associations, 3,824 or 57.5% reported holding BOLI assets in first half 2014, increasing their BOLI holdings by 4.5% from \$140.35 billion in first half 2013 to \$146.60 billion in first half 2014. (See Tables 1 and 4.)

Table 1. Total BOLI Assets (in billions) Held by Banks				
Banks by Asset Size	1H 2014	1H 2013	Percent Change In BOLI Assets	Percent Change in Total No. of Banks
Over \$10 billion	\$113.77 billion	\$109.34 billion	4.0%	1.9%
\$1 billion - \$10 billion	\$17.23 billion	\$16.07 billion	7.3%	3.5%
\$500 million - \$1 billion	\$5.85 billion	\$5.59 billion	4.6%	0.4%
\$300 million - \$500 million	\$3.97 billion	\$3.66 billion	8.3%	0.4%
\$100 million - \$300 million	\$4.87 billion	\$4.77 billion	2.2%	-5.5%
Under \$100 million	\$915.8 million	\$925.5 million	-1.0%	-7.8%
Industry Total	\$146.60 billion	\$140.35 billion	4.5%	-4.1%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

- The growth in BOLI holdings in a particular bank charter class is attributable to an increase in the value of those holdings, first-time purchases of BOLI by banks, and additional purchases by banks already having BOLI on the books. The growth rate within an individual charter may also be affected by mergers and acquisitions that take place with other financial institutions that have a different type of institutional charter.
- Of 1,109 national banks, 624 or 56.3% recorded \$92.16 billion in BOLI holdings, up 2.8% from \$89.61 billion in first half 2013. (See Tables 2 and 3.) This growth occurred despite a 7.1% decrease in the number of national banks between June 30, 2013 and June 30, 2014.
- Of 376 savings banks, 282 or 75.0% recorded \$5.32 billion in BOLI holdings, up 11.1% from \$4.78 billion in first half 2013. This significant 11.1% increase of \$540.0 million was primarily attributable to 15 savings banks that purchased BOLI for the first time and to 8 large banks whose increase of \$203.8 million was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 15% to 704%. (See Tables 2 and 3.)
- Of 523 savings associations, 266 or 50.9% recorded \$4.20 billion in BOLI holdings, down 4.1% from \$4.38 billion in first half 2013. Although BOLI holdings decreased for savings associations, the decline was considerably less than the 9.8% decrease in the number of banks in this institutional category. (See Tables 2 and 3.)
- Of 860 state-chartered member commercial banks, 573 or 66.6% of them reported holding \$21.89 billion in BOLI assets in first half 2014, up 7.4% from \$20.39 billion in first half 2013. This large 7.4% increase of \$1.5 billion was largely attributable to 23 state-chartered member banks that purchased BOLI for the first time and to 10 large banks whose increase of \$1.14 billion was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 13% to 134%. (See Tables 2 and 3.)
- Of the 3,788 state-chartered non-member banks, 2,079 or 54.4% of them reported holding \$23.03 billion in BOLI assets in first half 2014, up 8.7% from \$21.19 billion in first half 2013. This substantial 8.7% increase of \$1.84 billion was primarily due to 76 state-chartered non-member banks that purchased BOLI for the first time and to 18 large banks whose increase of \$1.25 billion was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 18% to 7,341%. (See Tables 2 and 3.)

**Table 2. Total BOLI Assets (in billions)
 Held by Bank Charter**

Banks by Charter	1H 2014	1H 2013	Percent Change in BOLI Assets	Percent Change in Total No. of Banks by Charter
National Banks	\$92.16 billion	\$89.61 billion	2.8%	-7.1%
Savings Banks	\$5.32 billion	\$4.78 billion	11.1%	-1.1%
Savings Associations	\$4.20 billion	\$4.38 billion	-4.1%	-9.8%
State-Chartered Member Banks	\$21.89 billion	\$20.39 billion	7.4%	1.3%
State-Chartered Non-Member Banks	\$23.03 billion	\$21.19 billion	8.7%	-3.8%
Industry Total	\$146.60 billion	\$140.35 billion	4.5%	-4.1%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

Table 3. Number of Banks by Charter Reporting BOLI Assets				
Banks by Charter	1H 2014	1H 2013	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks by Charter
National Banks	624	628	0.6%	-7.1%
Savings Banks	282	272	3.7%	-1.1%
Savings Associations	266	287	-7.3%	-9.8%
State-Chartered Member Banks	573	553	3.6%	1.3%
State-Chartered Non-Member Banks	2,079	2,061	0.9%	-3.8%
Industry Total	3,824	3,801	0.6%	-4.1%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

Table 4. Number of Banks Reporting BOLI Assets				
Asset Size	1H 2014	1H 2013	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks
Over \$10 billion	76	73	4.1%	1.9%
\$1 billion - \$10 billion	453	428	5.8%	3.5%
\$500 million - \$1 billion	491	477	2.9%	0.4%
\$300 million - \$500 million	590	557	5.9%	0.4%
\$100 million - \$300 million	1,477	1,490	-0.9%	-5.5%
Under \$100 million	737	776	-5.0%	-7.8%
Industry Total	3,824	3,801	0.6%	-4.1%
Percentage of banks holding BOLI assets	57.5%	54.8%	4.9%	N/A

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

By Type of BOLI Assets:

- The largest portion of BOLI assets was found to be held in separate accounts. Separate account CSV assets totaled \$70.97 billion among banks, representing 48.4% of all BOLI assets in first half 2014, down from 49.6% in first half 2013. (See Table 5.) At the same time, only 569 or 14.9% of all banks reporting BOLI held separate account assets. (See Table 6.) Thus, although SALI assets account for the largest portion of total BOLI assets, SALI assets were actually 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 legally segregated from the general assets of the insurance carrier. While 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, however, they do assume all investment and price risk. Accordingly, 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, nor are values guaranteed by the general account of the insurer.

- The type of BOLI assets most widely held by banks in first half 2014 was GALI policies. (See Table 6.) Ninety-three percent (93.9%) or 3,592 of the 3,824 banks reporting BOLI assets had \$60.41 billion in general account life insurance assets, representing 41.2% of total BOLI assets in first half 2014. (See Tables 5 and 6.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- Over twelve hundred (1,235) or 32.3% of the 3,824 institutions with BOLI assets reported holding hybrid account assets. This was up from 1,133 banks (29.8%) of 3,801 in first half 2013, 1,007 banks (27.6%) of 3,759 in first half 2012, and 766 banks (20.5%) of 3,734 in first half 2011. They held \$15.22 billion in hybrid account life insurance assets, representing 10.4% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. (See Tables 5 and 6.) However, in the past few years, HALI has been the fastest growing type of BOLI asset. 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 from among certain investment strategies in which the insurance premiums are invested.

Table 5. Total BOLI Assets (in billions) Held by Banks in First Half 2014				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$ 37.35	\$ 66.46	\$ 9.96	\$ 113.77
\$1 billion - \$10 billion	\$ 10.85	\$ 3.60	\$ 2.79	\$ 17.23
\$500 million - \$1 billion	\$ 4.43	\$ 0.47	\$ 0.95	\$ 5.85
\$300 million - \$500 million	\$ 3.10	\$ 0.19	\$ 0.68	\$ 3.97
\$100 million - \$300 million	\$ 3.92	\$ 0.20	\$ 0.76	\$ 4.87
Under \$100 million	\$ 0.76	\$ 0.06	\$ 0.09	\$ 0.92
Total BOLI assets	\$ 60.41	\$ 70.97	\$ 15.22	\$ 146.60
Percentage growth since 2013	6.8%	1.9%	7.6%	4.5%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

- Separate account life insurance (SALI) assets were most heavily concentrated (93.6%) among the largest banks with assets greater than \$10 billion. These banks also held significant amounts of GALI and HALI BOLI assets. The predominant types of BOLI assets held by banks under \$10 billion in assets were GALI and HALI. Banks under \$10 billion in assets held 38.2% (up slightly from 38.0% in first half 2013) of general account life insurance assets and 34.6% (up 1.1 points from 33.5% in first half 2013 and 4.4 points from 30.2% in first half 2012) of hybrid account life insurance assets in 2014, with just 6.4% of SALI assets. Furthermore, banks under \$1 billion in assets held 20.2% of GALI assets, 16.3% of HALI assets, but only 1.3% of SALI assets. (See Table 5.)
- As mentioned above, the fastest growing type of BOLI assets in first half 2014, in terms of the number of banks holding them, was hybrid account assets. Since first half 2011, the number of banks using hybrid accounts increased 31.5% from 766 banks to 1,007 banks in 2012, another 12.5% to 1,133 banks in first half 2013, and another 9.0% from that to 1,235 banks in first half 2014. Though it has declined, the rate of HALI growth has outstripped that of other types of asset accounts. During the same period (2011-2014), banks owning SALI assets increased by 9.6% from 554 to 607 banks in first half 2012 to a decline of 3.0% in 2013 to 589 banks and a drop of 3.4% to 569.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 453 of 565 banks and thrifts or 80.2% reported having them in first half 2014. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 737 of 1,975, or 37.3%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$4.4 billion) in BOLI in first half 2014. Institutions with assets between \$300 million and \$500 million attained the largest percentage increase (8.3%), followed by institutions between \$1 billion and \$10 billion with the second largest percentage increase (7.3%) in BOLI assets. (See Table 1.)
- Four of six bank asset-size classes experienced increases in first half 2014 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 5.9% among depository institutions with assets between \$300 million and \$500 million. The largest numerical increases of 33 banks and thrifts also occurred among those between \$300 million and \$500 million in assets. (See Table 4.)
- 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 decreased (-6.4%) from 15.68% in first half 2013 to 14.68% in first half 2014. Nationally, median BOLI assets as a percent of total capital increased (1.9%) from 15.72% in first half 2013 to 16.02% in first half 2014.

Table 6. Number of Banks Reporting BOLI Assets in First Half 2014				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	71	64	43	76 of 109 (70%)
\$1 billion - \$10 billion	427	160	213	453 of 565 (80%)
\$500 million - \$1 billion	477	87	217	491 of 676 (73%)
\$300 million - \$500 million	560	68	227	590 of 827 (71%)
\$100 million - \$300 million	1,381	124	424	1,477 of 2,504 (59%)
Under \$100 million	676	66	111	737 of 1,975 (37%)
All banks	3,592	569	1,235	3,824 of 6,656 (57%)
Percentage increase since 2013	1.3%	-3.4%	9.0%	0.6%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

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About the Equias Alliance / Michael White BOLI Holdings Report™

The Equias Alliance / Michael White BOLI Holdings Report™ measures and benchmarks the cash surrender values (CSV) of life insurance held by commercial banks, savings banks, and savings associations and their ratios of CSV to capital. It is one of several reports dealing with bank fee and other noninterest income activities published by Equias Alliance / Michael White Associates, LLC (MWA).

Equias Alliance, LLC (“Equias”), through its group of nationwide consultants, has assisted over 800 community banks in the design and implementation of bank-owned life insurance as well as nonqualified benefit plans for selected executives. These plans help institutions increase earnings and shareholder value as well as recruit, retain and reward key officers and directors. If a bank should decide to implement a BOLI or nonqualified

benefit plan, Equias has the experienced and professional staff (including attorneys and CPAs) needed to properly administer and oversee these plans. As evidence of its leadership position in the market, Equias has the exclusive endorsement of the ABA (through its subsidiary, the Corporation for American Banking) and 11 state banking associations for BOLI. Equias (www.equiasalliance.com) is headquartered in Memphis, Tennessee with 18 consultants located in 14 offices throughout the U.S.

Michael White Associates is a bank insurance consulting firm headquartered in Radnor, PA and published reports can be obtained at www.BankInsurance.com. Other reports include the *MWA BOLI Capital Concentration Report™*. This report assists with 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.

This analysis excludes BOLI held at the holding company level. It was excluded because it represents a relatively small portion of total BOLI assets and because the holding company data is not available at the same time as the bank data and would delay the release of this report.

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